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JEI

REPORT

NO. 44B
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State Visit Strengthens Ties with Japan

Marking the highpoint of his visit to Japan, President Reagan pledged in his Diet address on November 11 that in spite of occasional problems the two countries would permanently maintain their friendship. Although both sides registered their economic differences, the talks were remarkably free of hostility. Spokesmen for both governments said that the visit marked the maturing of a partnership that would, despite difficult trade issues, continue to demonstrate a broader defense/security perspective.

Mr. Reagan's approach to Japan was two-fold. First, the president emphasized the importance of a permanent relationship -- not only because of the two countries' economic might but because of their fundamental democratic

STATISTICAL SUPPLEMENT

Trade and Payments Data

(in millions of dollars unless otherwise indicated)

	1981	1982	January-September 1982	January-September 1983	July 1983	August 1983	September 1983
Japan's Balance of Payments							
Trade Balance	$ 19,967	$ 18,079	$ 13,511	$ 22,463*	$ 3,762*	$ 2,452*	$ 3,369*
Exports (f.o.b.)	149,522	137,663	104,174	105,621*	12,499*	11,493*	12,629*
Imports (f.o.b.)	129,555	119,584	90,663	83,158*	8,737*	9,041*	9,260*
Current Account Balance	4,770	6,850	4,594	14,562*	2,855*	1,374*	2,688*
Long-Term Capital (net)	-9,672	-14,969	-15,026	-12,344*	-1,799*	-1,931*	-2,409*
Overall Balance	-2,144	-4,971	-6,744	3,234	874	-27	318
International Reserves (end of period)	28,403	23,262	24,009	24,641	24,939	24,398	24,641
Japan's Customs Clearance Trade							
Trade Balance	8,741	6,900	4,717	14,371*	2,848	1,675	2,392*
Exports (f.o.b.)	152,030	138,831	105,118	106,470*	12,629	11,633	12,800*
Cars	18,445	18,015	13,600	14,406*	1,716	1,249	1,675*
Steel	16,669	15,645	12,287	9,321*	1,028	1,060	1,149*
Imports (c.i.f.)	143,290	131,931	100,402	92,099*	9,780	9,959	10,409*
Crude Oil	53,343	46,274	34,630	29,168*	2,751	2,723	3,187*
Japan-U.S. Trade							
Trade Balance	13,312	12,151	9,175	12,019*	1,525	1,340	2,080*
Exports (f.o.b.)	38,609	36,330	27,711	30,100*	3,689	3,394	4,083*
Imports (c.i.f.)	25,297	24,179	18,536	18,081*	2,164	2,054	2,003*
Yen-Dollar Exchange Rate							
Tokyo Spot Market (end of period)	¥219.90	¥235.00	---	---	¥241.70	¥246.60	¥236.10
U.S.-Japan Trade							
Trade Balance	-15,789	-16,778	-13,744	-13,570	-1,637	-1,834	-1,027
Exports (f.a.s.)	21,823	20,966	15,544	15,709	1,920	1,800	1,948
Industrial Supplies	8,983	9,173	6,765	6,267	706	709	677
Food and Feed	5,896	4,971	3,745	4,068	530	544	564
Capital Goods	4,767	4,434	3,314	3,520	459	339	404
Consumer Goods	1,318	1,356	1,030	1,050	124	109	130
Imports (Customs)	37,612	37,744	29,289	29,280	3,557	3,634	2,976
Automotive Products	12,950	12,890	9,934	10,697	1,253	1,328	949
Industrial Supplies	7,179	6,795	5,608	3,869	453	478	425
Consumer Goods	8,340	7,842	5,953	5,809	694	770	638
Capital Goods	8,589	9,530	7,242	8,408	1,099	996	908

*Preliminary

STATISTICAL SUPPLEMENT

Japanese Economic Indicators

(percentage change from year-earlier period unless otherwise indicated)

	1981	1982	January-August 1982	January-August 1983	June 1983	July 1983	August 1983
Discount Rate (end of period)	5.5%	5.5%	5.5%	5.5%	5.5%	5.5%	5.5%
Outstanding Money Supply	8.9%	9.2%	9.7%	7.4%	7.7%	7.1%	6.9%
Industrial Production	1.0%	0.3%	1.5%	1.2%	1.9%	2.4%	5.2%
Manufacturing Operating Rate	-4.6%	-2.9%	-2.3%	-0.9%	0.3%	0.4%	2.4%
Number of Bankruptcies	-1.5%	-2.8%	-3.2%	8.7%	16.1%	5.8%	22.2%
Residential Construction Starts	-9.2%	-0.5%	-4.9%	-1.7%*	-0.1%	-3.4%	-1.7%*
Job Openings to Applications (ratio)	0.68	0.61	0.62	0.59	0.58	0.57	0.58
Nominal Wages	5.3%	4.5%	5.1%	3.8%*	4.2%	3.8%	-1.5%*
Labor Productivity	2.4%	1.0%	2.4%†	1.3%†	2.6%	n.a.	n.a.
Wholesale Prices	1.4%	1.8%	1.9%	-1.7%	-2.0%	-2.4%	-2.9%
Consumer Prices	4.9%	2.7%	2.7%	2.0%	2.0%	2.2%	1.2%
Yen-Based Export Prices	1.2%	3.9%	4.9%	-5.8%	-6.5%	-7.0%	-6.0%
Yen-Based Import Prices	1.6%	7.9%	6.9%	-5.4%	-8.3%	-10.1%	-9.5%

*Preliminary

†Through June of each year only.

For Japan's most recent GNP figures, see JEI Report No. 36B, September 23, 1983.

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THE ROLE OF INTERNATIONAL TRADE IN THE JAPANESE ECONOMY

Summary

Japan is once again experiencing a rapid rise in its merchandise trade and current-account surpluses following record deficits in the wake of the 1979 oil shock. In the past, these large increases have become the focus of foreign criticism, and their reemergence is generating attention on the role of international trade in the Japanese economy.

This report demonstrates that while trade is vitally important, Japan's trade dependence is not as great as many Americans think; the level of the economy's exposure to trade is much closer to the U.S. than to the European model. The Japanese, do, however, seem to be more aware of the importance of trade than the Americans, partly because of their high degree of dependence on imported raw materials.

At the policy level, virtually all of the measures instituted in the 1950s to promote exports have now been dismantled for more than a decade. Import barriers have fallen and Tokyo has taken a variety of measures to stimulate imports. Although some barriers certainly remain, Japan is one of the few countries that continues to move unilaterally toward more open trade. Still, however, the macroeconomic factors generating surpluses are likely to continue for some time -- barring a recurrence of oil disruptions -- and eliminating the trade surplus is an unrealistic goal at the present time. This conclusion, while economically rational, will remain politically unpalatable in the United States.

The Size and Growth of Trade in Japan

One of the common errors Americans make in discussing Japan is the assumption that merchandise trade is a large share of the country's GNP. This conclusion no doubt stems from the strong competitiveness of Japanese exports and the observation that Japan is highly dependent upon imported raw materials. Yet it is quite simply not true; the measure of Japan's dependence on trade is generally closer to the United States' level than is realized.

Table 1 presents data for the period since 1970 on the ratio of Japan's exports (f.o.b.) and imports (c.i.f.) to GNP. From levels of around 10 percent, exports have increased to 13 percent over this period, while imports have increased from around 9 percent to a bit over 12 percent. The increases were primarily the result of rising oil prices (and an increase in exports to pay the import bill). A closer look shows that after the 1973 and 1979 oil shocks, the export and import ratios tended to stabilize at the new, somewhat higher levels.

Two features stand out from the data. First, there is no indication that exports have consistently grown as a share of GNP. Except for the two increases due to the effects of the oil shocks, exports tend to be a stable share of GNP. Second, the levels of exports and imports relative to GNP are not at all high in terms of an international comparison.

Table 2 provides similar data on exports and imports for the United States. However, because exports are measured on an f.a.s. basis, the values are inflated slightly over f.o.b. From only 4.0 percent in 1965, the ratio of exports to GNP has risen to about 8 percent, while the ratio for imports has risen from 3.1 percent to around 9 percent. While these figures are lower than those in Japan, the disparity between the two countries seems to have narrowed somewhat. In addition, the rise in both the export and import ratios in the United States has been far greater than in Japan; the ratio of exports to GNP, for example, increased 2.0 times between 1965 and 1982 in the United States while it increased only 1.4 times in Japan.

In contrast, most other industrial countries are significantly more exposed to trade. Table 3 shows the 1982 export (f.o.b.) and import (c.i.f.) ratios to GNP for France, Germany, Britain, Italy, Canada and Australia. The European countries and Canada generally record export and import ratios above 20 percent. Australia, which is as isolated as Japan from its major export markets, has lower ratios, but even it exceeds the levels of Japan on both exports, which are 14.2 percent of GNP, and imports, which are 17.2 percent of GNP.

The differences seem to be the product of a number of factors, of which economic size and geography are the most important. Because trade is often a more important sector for small economies than large ones, Japan and the United States -- the two largest market economies in the world -- have lower ratios. Japan and the United States are also farther from most of their foreign markets than are the European countries, whose common land borders entail distances that are often less than those involved in domestic trade in the United States. If intra-European trade is eliminated from the figures for the

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European countries, then the ratios look much more like those of Japan or the United States.

One of the implications of the relatively modest share of exports in the Japanese economy is that not very many Japanese exist primarily on the export market. A recent survey of the 928 firms that make up the first section of the Tokyo stock exchange reveals that the average ratio of exports to total sales for this set of companies is 18 percent, and only 39 of them have a ratio of exports to total sales that exceeds 50 percent. Among these are some of the names well-known to foreigners, including Minolta (82 percent), Sony (71 percent), Casio (66 percent) and Sharp (55 percent). Many other large companies in Japan have very low export ratios. Hitachi, the second-largest electrical equipment corporation in Japan has a 30-percent ratio; Toshiba, 24 percent; Nippondenso (the largest manufacturer of automobile electrical equipment) 10 percent; Riccar (the third-largest manufacturer of sewing machines in Japan) 8 percent; and Asahi Diamond (the largest manufacturer of diamond-tipped tools) 7 percent.

In fact, Japanese international competitiveness appears to be concentrated in the leading companies of a few industries, including automobiles, consumer electronics and steel. For those firms that are heavily involved in exports, a high priority is given to market research and adaption of products to meet foreign standards and tastes. This is a trait that many Japanese observers feel is lacking in American companies. It is true that as modest as Japanese export performance seems, Japanese firms are more export-oriented than American firms. For example, the ratio of manufactured exports to total manufactured shipments in the United States was 7.7 percent in 1981.

The proportion of manufactured goods to total imports is lower in Japan than in other industrial countries, another fact that has caused difficulty for Japan. Economists point out, however, that this lower proportion is a result of Japan's heavy reliance on imported raw materials. This dependence has been explored earlier in JEI Report No. 25A, July 2, 1982, which concluded that even though all industrial nations depend upon imported raw materials to a considerable degree, Japan does stand out in both its degree of dependence and on the wide variety of materials which it must import.

As it has no raw materials to export, Japan must develop a comparative advantage in manufactured goods if it is to pay its bills, so that it is no surprise that Japan runs a very lopsided surplus in manufactured goods trade. The economic forces that assure this result carry another implication -- that if Japan is to absorb more manufactured imports from the United States, we must be prepared to buy more Japanese exports as well.

This analysis of Japan's position in the international economy is supported by the conclusions of a diverse group of economists, including the General Accounting Office, the Japan-U.S. Economic Relations Group, the Council of Economic Advisers and University of Michigan economist Gary Saxonhouse (see sources at the end of this report).

This should not be taken to mean that Japan has no import barriers. All nations restrict trade to some extent and Japan is no exception. Removal of those barriers remains a legitimate goal of the international trading system. However, we should be fully aware of the implications of this process. The country's relatively modest exposure to international trade, its large share of raw material imports, and its comparative advantage in manufactured goods trade will not change with the removal of import barriers.

Government Policy Toward Trade

Americans assume that the present trade imbalance with Japan is the product of Japanese import barriers because in the 1950s and 1960s, import restrictions in Japan did deter the entry of goods. In addition, that early postwar period was characterized by government policies to promote exports. The desirability of both protectionist and export promotion policies at that time was, however, conceded by Japan's trading partners.

During the early postwar period, the yen was overvalued at the level established under the Bretton Woods system (¥360=$1), resulting in recurring balance-of-payments problems. Under the Bretton Woods agreement, countries with current-account deficits and resulting selling pressure on their currencies were committed to selling their official holdings of foreign exchange in the market to maintain the established exchange rate. Since those reserves were not infinite, countries with continuing deficits eventually had no choice but to officially devalue their currencies. Because the government of Japan was strongly committed to avoiding the international humiliation of a devaluation, the Japanese authorities pursued other options to control current-account deficits and stop the drain on official holdings of foreign currency.

These options included periodic use of monetary policy to slow the economy (in order to reduce imports and thus bring the current account into better balance), a network of extensive import barriers, and systematic use of official export-promotion policies. As Japan overcame its balance-of-payments problems in the mid 1960s, it began dismantling both programs -- a process covered in a special 1982 JEI publication (Japan's Import Barriers: An Analysis of Divergent Bilateral Views). To summarize the process briefly, from the time when liberalization began in the early 1960s, Japan has continued to remove quotas, lower tariffs, and lift other impediments to trade. Japan now has the lowest average tariff level among industrial countries, retains only a few residual quotas (the number of which compares favorably with other industrial countries), and remains one of the few developed nations that continues to liberalize unilaterally. While some barriers remain and have become irritants in bilateral relations, there is virtually no comparison between Japan today and a decade or two ago. Foreign criticism and pressure was an important element in this progress, but it is significant that the Japanese government was willing to oppose the domestic forces that favored continued restrictions and move consistently toward greater liberalization.

The experience with export promotion is essentially similar. In 1964, a representative year in the heyday of export promotion, the Japanese tax code provided several different benefits to exporters. First, a tax-free reserve was allowed for overseas market development costs which allowed a postponement of taxes. Second, a similar provision was aimed specifically at medium/small firms. Third, a tax-free reserve was allowed for overseas investment losses. And last, a deduction from taxable income was allowed for income from overseas technical services.

Additionally, the government created the Japan External Trade Organization (JETRO) to promote Japanese exports. A subsidiary of the Ministry of International Trade and Industry (MITI), JETRO was created in 1958 to provide a variety of overseas market information and offer assistance on the technical details of exporting. Other measures followed, including the the establishment of the Export-Import Bank in 1950 to provide low-cost loans for financing trade, the antitrust exemption for export associations under the Medium and Small Company Law, and the preferential treatment of export credit bills at the discount window of the Bank of Japan (where, in the 1960s, the discount rate on such bills was a bit lower than for other bills).

This plethora of measures reflects the strong recognition by the government of the need to overcome balance-of-payments problems and promote growth. Japan at that time was growing very rapidly and growth implied necessary increases in raw material imports which could only be obtained by increasing exports. Restricting manufactured imports could not suffice alone because its favorable impact on the balance of payments would have been quickly swamped by the tremendous increase in raw material imports.

Virtually all of these export promotion measures have been abandoned since the 1960s. All of the tax incentives have been gone for a decade, with the exception of the overseas market development tax-free reserve for small companies and the overseas investment loss reserve. The impact of these measures on Japanese exports today is negligible. The preferential discount rates at the Bank of Japan have been eliminated. JETRO's functions now include both exports and imports. The Eximbank loans have also shifted toward a more balanced emphasis on imports as well as exports.

Illustrating these changing functions are the budgets of JETRO and the loan portfolio of the Eximbank. Export promotion activities remained the principle budget line item for JETRO until the late 1960s. Between fiscal 1969 and fiscal 1983, though, this catagory dropped from 45.5 percent of JETRO's budget to only 8.2 percent, while import-related activities rose from a miniscule 0.5 percent to 16.3 percent. Eximbank loans directed to exports and imports vary considerably, but for fiscal 1978-83, export-related lending was 58.6 percent of total loans compared to 69.4 percent in the preceding five-year period.

These changes, combined with the dramatic reduction in Japan's import barriers, make it clear that Japan's trade surpluses are not the result of government policies. If anything, policy measures--in the form of voluntary restrictions on certain exports such as automobiles--keep the surpluses smaller and inhibit Japanese economic growth.

The Trade Balance

The answer to questions about Japan's trade surpluses lies in the macroeconomic structure of the Japanese economy, and that structure points to continued surpluses for some time to come. Economists use a simple accounting framework to look at the basic macroeconomic structure of the economy:

$$GNP = C + I + G + (X-M) = C + S + T$$

This says that the total output of the economy, or gross national product (GNP), can be defined as the different uses to which goods are put -- consumption (C), investment (I), government (G), or net exports of goods and services (exports minus imports or X-M). GNP can also be described by the use to which the income streams generated by economic activity are put -- consumption (C), savings (S) and taxes (T). Simple algebraic rearrangement of these items yields the following result:

$$(S-I) = (G-T) + (X-M)$$

What this equation says is that any imbalance between the domestic supply of savings and the domestic demand for investment (S-I) must necessarily be offset by government deficit spending (G-T) and/or a current-account surplus (X-M). This is not a theory; this is an identity resulting from the accounting framework for analyzing GNP, meaning that it will always be true.

This accounting framework provides a convenient tool for looking at Japan's macroeconomic situation. Since 1973, Japan's economic growth has slowed to less than half the level prevailing in the 1950s and 1960s. With lower growth, the demand for investment in the domestic economy has fallen. At the same time, domestic savings have not dropped by as much. Business savings have dipped somewhat as recession and lower growth reduced profits, but personal savings remain rather high. From a peak of 24 percent of disposable income, individual savings still hover around 20 percent. The result has been the emergence of a large (S-I) surplus; domestic savings now exceed domestic demand for investment. This imbalance has been on the order of 4 to 5 percent of GNP.

Offsetting this surplus have been both government deficits and current account surpluses. The decade since 1973 has brought the emergence of large government deficits in Japan. These deficits have become larger as a proportion of GNP than is the case in the United States, ranging from 4 to 6 percent, as shown in Table 4. Thus, they absorbed most or all of the surplus of savings -- but not completely, and not in every year -- so that the remainder has appeared as a current-account surplus (Table 4). In years of oil crises, large current-account deficits have appeared due to the large increase in import costs, but once the oil-price changes have worked through the economic system, the surpluses have returned.

Barring further oil-price hikes, these current-account surpluses are likely to continue, as will the savings surplus. Savings will fall only very slowly if at all. Economists conclude that the thrifty habits of the Japanese public are unlikely to show any dramatic decline, although the aging population may bring some decrease in the proportion of income saved in the medium-run.

On the other side, the domestic demand for investment is unlikely to rise since no one predicts that Japan will return to a significantly higher growth rate.

The government deficit will continue to absorb much of this imbalance, but its ability to do so is constrained since the Japanese government remains very concerned about the potential inflationary impact of the deficit. Since fiscal 1980, the overriding concern of the Ministry of Finance has been to reduce the government's dependence on debt to fund its expenditures, resulting in the falling ratios of debt to GNP shown in Table 4. Despite its avowed desire to completely eliminate this dependency, fairly considerable government deficits will continue for the reason that much of the increase in government spending has been through entitlement programs, and as the aging of the Japanese population continues, these entitlements (such as social security and medical care) will relentlessly rise. Tax increases large enough to offset this trend are politically unrealistic, so deficits will continue at some level.

With a continued surplus of savings, and limitations on the government's ability to absorb all of it, a current-account surplus is inevitable for at least several years. Within the balance-of-payments framework, that current-account surplus implies an equal and offsetting net outflow of capital from Japan. Along with its current-account surplus, Japan will run an even larger merchandise trade surplus because of the consistent deficit that it runs on services trade. Eventually the large net outflow of capital from Japan may generate enough investment income (which is registered in the balance of payments as a services transaction) that the overall services deficit will turn to a surplus (as has happened in the United States), but that point is a number of years in the future. Thus, the medium-term perspective suggests continued merchandise trade surpluses. Japan tends to run bilateral merchandise trade deficits with major raw material exporters (especially oil exporters) and surpluses with other countries, especially those that are major manufactured good importers. Hence, Japan's continued overall merchandise trade surplus implies that it will run a trade surplus with the United States.

Implications and Conclusions

The analysis in the preceding section implies what many Americans have not considered: Japan's continued current-account and merchandise trade surplus was reached without reference to trade barriers. The conclusion holds regardless of what happens to these barriers. Pressure on Japan to admit more U.S. merchandise does not alter the pattern of excess savings and limitations on the government deficit. Lower trade barriers may increase American exports to Japan, but because the surpluses will remain, the United States and other countries must be willing to absorb more exports from Japan. Considering that Japan's comparative advantage lies in products such as automobiles, is the United States or Europe willing to fight off the protectionist forces at home so that the necessary increase in Japanese exports can proceed? That is a major question.

A related question is whether Americans who believe that Japan's trade surpluses are the result of trade barriers and/or Japanese export promotion policies will accept the fact that the trade balance is unaffected by lower import barriers. The image of Japan as unfair has distracted attention from the facts; we must learn to divorce the question of trade barriers from trade balances.

The economically rational decision is to continue to press Japan for import liberalization while at the same time accepting the need for increased Japanese exports by removing or avoiding barriers at home. The world will be better off with Japanese trade surpluses and an outflow of Japanese savings than with artifical constraints that interfere with this efficient allocation of economic resources. This academic ideal is unobtainable politically, but at least movement should be in that direction.

Suggested Sources

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For further information, contact Edward Lincoln.

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Table 1: Trade in Japan's Economy

(exports and imports as a percentage of GNP)

Year	Exports/GNP	Imports/GNP
1965	9.3%	9.0%
1970	9.5	9.3
1971	10.4	8.6
1972	9.5	7.8
1973	8.9	9.3
1974	12.0	13.5
1975	11.2	11.6
1976	12.0	11.6
1977	11.7	10.3
1978	10.2	8.2
1979	10.3	11.1
1980	12.5	13.5
1981	13.3	12.5
1982	13.0	12.3

Sources: Japan Tariff Association, *Summary Report: Trade of Japan*; Bank of Japan, *Economic Statistics Annual*.

Table 2: International Trade in the U.S. Economy

(f.a.s. exports and Customs value imports as a percentage of GNP)

Year	Exports/GNP	Imports/GNP
1965	4.0%	3.1%
1970	4.4	4.0
1971	4.1	4.2
1972	4.2	4.7
1973	5.4	5.2
1974	6.9	7.0
1975	6.9	6.3
1976	6.7	7.0
1977	6.3	7.7
1978	6.6	7.9
1979	7.5	8.5
1980	8.4	9.3
1981	7.9	8.9
1982	6.9	7.9

Source: U.S. Department of Commerce, *Statistical Abstract of the United States* and *Survey of Current Business*.

Table 3: An International Comparison of Trade in GNP, 1982

(f.o.b. exports and c.i.f. imports as a percentage of GNP)

Country	Exports/GNP	Imports/GNP
France	17.6%	20.5%
West Germany	26.8	23.6
United Kingdom	20.5	21.0
Italy	21.3	24.9
Canada	24.6	20.2
Australia	14.2	17.2
United States	6.9	8.3
Japan	13.0	12.3

Note: In this table, the import data for the United States is c.i.f., not Customs value as used in Table 2.

Source: International Monetary Fund, International Financial Statistics.

Table 4: Government Deficits and the Current-Account Surplus in Japan

(expressed as a percent of GNP)

Year	Government Deficit	Current Account Surplus/Deficit
1973	1.5%	1.6%
1974	1.6	-0.0
1975	3.5	-0.9
1976	4.2	-0.1
1977	5.1	0.5
1978	5.2	1.1
1979	6.1	-0.8
1980	5.9	-0.1
1981	5.1	0.4
1982	4.3	0.7

Source: Bank of Japan, Economic Statistics Annual.

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LDP Factional Maneuvers Key to General Election

The general election scheduled for December 18 is only the first step in a process that will require at least another year before Japan's outstanding domestic political issues are resolved. The Liberal Democratic Party (LDP) should retain its majority in the Diet's Lower House, affording Prime Minister Nakasone an opportunity to expand his power base and retain the premiership. But the fundamental question of Kakuei Tanaka's future role is not likely to be settled, in spite of its being the centerpiece of the election.

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Most of Japan's Lower House election districts send multiple members to the Diet. In these districts, where the top three to five vote-getters win election, a key element for any party is determining the optimum number of candidates to run. Overloading ballots can dilute votes, resulting in losses for the party. Similarly, a failure to capitalize on party popularity within a district can lose the party seats it would otherwise have won.

In all, an unusually large number of candidates from all parties -- 848 -- are competing for 511 seats. The LDP finds itself with an overabundance of candidates, and from the party's perspective, too many of them may be competing against one another within districts, risking a loss of more than the 15 to 20 seats that most observers currently anticipate.

At this point, candidate endorsements enter into the picture. The national party organization traditionally endorses candidates in different prefectures based on political judgments as to each candidate's "electability" and the party's overall strength within the district. Not all affiliated candidates are endorsed. A local candidate's stature is generally enhanced by such endorsements, which also carry with them additional campaign funds from Tokyo. Endorsements are made at the last possible moment in a campaign, meaning a final influx of influence, prestige and finances at the prefectural level just before voters go to the polls.

Endorsements can mean the difference in a candidate's chances of being elected to the Diet. Observers of the Japanese political system estimate that the party endorsement can mean as many as 25,000 additional votes, a significant number in light of the diffused votes in multi-member districts. Officially endorsed candidates also are better placed to receive prime party and government positions once they reach Tokyo.

So far as Mr. Nakasone is concerned, the LDP endorsement process would have given him an opportunity to expand his influence while diluting Tanaka's. However, the Tanaka faction has played the predominant role in the LDP's endorsement committee up to this point. Nakasone has given way to Tanaka rather than risk a political confrontation, and as a consequence, Tanaka faction members and supporters might be able to extract a large share of the LDP endorsements.

Even if the LDP loses seats on December 18, as is expected, the Tanaka faction probably will remain the strongest in the party owing to the endorsement process, Tanaka's personal influence and the strength of the faction's election finances. Thus, the question of what role Kakuei Tanaka will play in Japanese politics will remain unresolved even after the elections. And although the Tanaka faction will remain one of the strongest in the Diet, its actions will be limited by several factors. Tanaka will be appealing his bribery conviction; there is no strong successor within the faction to succeed Tanaka; and the other factions remain strong enough only to oppose the Tanaka/Nakasone/Suzuki alliance, not to displace it.

Nakasone and Tanaka thus remain tied to one another for the immediate future; without Tanaka's support, Nakasone cannot remain in office. Mr. Nakasone, however, wields considerable influence by virtue of his office and is in a position to enhance his stature sufficiently to win the LDP presidential election scheduled for November 1984. It appears that Nakasone's strategy calls for allowing the Tanaka faction leeway while using the December elections to form the necessary alliances to assure his victory in the party presidential election. Since that post is tantamount to attaining the premiership, the 1984 election is at least as important as the general elections scheduled this month in terms of party and factional politics.

Opposition parties are making government ethics the principal issue in the election, trying to take advantage of the Tanaka bribery conviction to increase their representation in the Diet. If voters agree that political ethics are the key concern, it follows that the party most likely to benefit from public sentiment is Komeito, the "clean government" party. Opposition forces, however, are not well organized and must fight the prime minister's personal popularity which, while not sufficient to prevent the LDP from losing a limited number of seats, is still strong enough to convince many voters to overlook Tanaka's transgressions.

Election-year turnover will be another factor in the elections. In the last Lower House elections in 1980, only three Diet members resigned rather than run for election. To date, 38 incumbents have resigned and 13 others died while in office. Furthermore, an average of 90 incumbents lose reelection bids in an average year, according to one study of Japanese elections. If this pattern holds, it will mean that fully 20 percent of the Diet will be new the next time it convenes. This could give Nakasone an opportunity to bring members within his circle, separating himself from the Tanaka umbilical cord.

Recent polls indicate slight declines in public support for Nakasone. A survey by Asahi Shimbun released on December 5 showed support dropping from 51 percent to 48 percent. The Japanese Socialist Party (JSP) was the closest individual party to the LDP with 19 percent, although total support for all opposition parties was 41 percent. The LDP won its current number of seats in 1980 with just over 48 percent of the total vote, but it did not face the same problems it does now.

Subtle maneuvers are underway within the LDP to create public impressions of what constitutes an LDP "victory" or "defeat" in the elections. As the leader of his party, Prime Minister Nakasone is viewed as personally responsible for its performance in the elections. A poor showing would reflect upon his leadership capabilities and his desirability as LDP president. Nakasone opponents are therefore suggesting that a loss of any more than 20 seats would constitute a defeat for the party. Former prime minister Fukuda, a staunch opponent of the Tanaka/Nakasone/Suzuki alliance, has gone so far as to claim that losing even a single seat would be detrimental to the LDP. Nakasone has taken the other extreme, stating that he seeks primarily to retain a majority in the Lower House -- just 256 seats. If the LDP wins any more than that -- as most observers now expect -- he would be able to claim victory in the face of adversity to justify his hold on the party presidency.

Nakasone himself apparently is confident of a good showing by the LDP in December and of his ability to retain the party presidency the following November. The LDP is entering the December campaign with an unusually sound base. Its showing in 1980 was surprisingly strong and the party cannot be expected to record the same strength this time around. The large number of seats it now holds gives it limited room for losses this month while allowing the principal political figures in the country the opportunity to further their political aims.

Party Candidates, 1983

Party	Total Number of Candidates	Previous Election	Number of Seats in Lower House
Liberal Democratic Party (LDP)	337	310	286
Japan Socialist Party (JSP)	144	149	101
Clean Government Party (Komeito)	59	64	34
Democratic Socialist Party (DSP)	54	50	31
Japan Communist Party (JCP)	129	129	29
New Liberal Club	17	25	10
Shakairen	4	5	3
Minor parties	18	42	0
Independents	86	61	4
Total	848	835	498

Note: There are currently 13 vacant seats in the Lower House.

Michael Chinworth

Election: Where Have All the Economic Problems Gone?

The political vacuum induced by the dissolution of the Diet will postpone important policy decisions, including those necessary to sustain Japan's economic upturn. As a result, government officials are making sure that economic management policies are in place in the month of December in order to assist domestic growth. In the area of public works spending, the government will accelerate scheduled public works programs to assist in natural-disaster relief projects. As mandated in the comprehensive economic package, it will spend 75 percent of the total budget in this fiscal year. Depressed-area spending programs will also be expanded and local governments will be expected to assist the central government in this effort.

On the financial front, monetary authorities will continue to pursue policies designed to expand lending activity. Toward the end of this year, a planned expansion of three government financial institutions is scheduled, and private banks and lending institutions have already announced funding of about $26 billion for small and medium-size businesses.

As a consequence of the Lower House elections, the government cannot prepare the FY 1984 budget until next year. The Ministry of Finance is planning to release its draft in the middle of January -- and is likely to continue its emphasis on curbing expenditures. According to economists, since FY 1984 is the first year of the proposed fiscal reform program, the government is obliged to carry out budget cuts in all areas except revenue-sharing to

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Japan Development Bank Pushes Loans for Foreign Companies

The Japan Development Bank (JDB) has issued loans to two Japanese subsidiaries of foreign companies -- a new departure in its policies -- and one that it is reportedly eager to continue pursuing. The bank, a government-owned lending institution established in 1951, provides long-term loans below market interest rates to the private sector in order to promote Japanese economic and social development. Its mandate and lending practices have made the JDB the focus of attention in the industrial policy debate, and some observers see it as a principal part of the Japanese government's efforts to promote industrial development.

A sectoral breakdown of actual lending by the JDB indicates that for most companies and industries its share in total outstanding loans is miniscule and that its focus is diverse, including pollution-control investments and other social goals as well as its original concern with industrial development. Nevertheless, some of its lending does go to finance the

STATISTICAL SUPPLEMENT

Trade and Payments Data
(in millions of dollars unless otherwise indicated)

	1981	1982	January-October 1982	January-October 1983	August 1983	September 1983	October 1983
Japan's Balance of Payments							
Trade Balance	$ 19,967	$ 18,079	$ 15,450	$ 25,557*	$ 2,452*	$ 3,369*	$ 3,094*
Exports (f.o.b.)	149,522	137,663	115,236	118,392*	11,493*	12,629*	12,771*
Imports (f.o.b.)	129,555	119,584	99,786	92,835*	9,041*	9,260*	9,677*
Current Account Balance	4,770	6,850	6,027	16,843*	1,374*	2,688*	2,281*
Long-Term Capital (net)	-9,672	-14,969	-15,318	-14,723*	-1,931*	-2,409*	-2,379*
Overall Balance	-2,144	-4,971	-6,817	3,062	-27	318	-172
International Reserves (end of period)	28,403	23,262	22,840	24,665	24,398	24,641	24,665
Japan's Customs Clearance Trade							
Trade Balance	8,741	6,900	5,695	16,386*	1,675	2,388	2,019*
Exports (f.o.b.)	152,030	138,831	116,227	119,283*	11,633	12,791	12,822*
Cars	18,445	18,015	15,042	16,113*	1,249	1,673	1,709*
Steel	16,669	15,645	13,430	10,432*	1,060	1,150	1,110*
Imports (c.i.f.)	143,290	131,931	110,532	102,896*	9,959	10,403	10,803*
Crude Oil	53,343	46,274	38,153	32,241*	2,723	3,187	3,072*
Japan-U.S. Trade							
Trade Balance	13,312	12,151	10,266	13,990*	1,340	2,079	1,973*
Exports (f.o.b.)	38,609	36,330	30,608	34,141*	3,394	4,085	4,040*
Imports (c.i.f.)	25,297	24,179	20,342	20,151*	2,054	2,006	2,067*
Yen-Dollar Exchange Rate							
Tokyo Spot Market (end of period)	Y219.90	Y235.00	---	---	Y246.60	Y236.10	Y233.60
U.S.-Japan Trade							
Trade Balance	-15,789	-16,778	-15,214	-15,637	-1,834	-1,027	-2,067
Exports (f.a.s.)	21,823	20,966	17,348	17,714	1,800	1,948	2,005
Industrial Supplies	8,983	9,173	7,571	7,062	709	677	795
Food and Feed	5,896	4,971	4,175	4,583	544	564	515
Capital Goods	4,767	4,434	3,696	3,994	339	404	474
Consumer Goods	1,318	1,356	1,133	1,171	109	130	121
Imports (Customs)	37,612	37,744	32,563	33,351	3,634	2,976	4,071
Automotive Products	12,950	12,890	11,088	12,077	1,328	949	1,380
Industrial Supplies	7,179	6,795	6,046	4,384	478	425	515
Consumer Goods	8,340	7,842	6,734	6,691	770	638	882
Capital Goods	8,589	9,530	8,096	9,632	996	908	1,224

*Preliminary

STATISTICAL SUPPLEMENT

Japanese Economic Indicators

(percentage change from year-earlier period unless otherwise indicated)

	1981	1982	January-September 1982	January-September 1983	July 1983	August 1983	September 1983
Discount Rate (end of period)	5.5%	5.5%	5.5%	5.5%	5.5%	5.5%	5.5%
Outstanding Money Supply	8.9%	9.2%	9.6%	7.4%	7.1%	6.9%	7.2%
Industrial Production	1.0%	0.3%	1.3%	1.8%	2.4%	5.0%	6.3%
Manufacturing Operating Rate	-4.6%	-2.9%	-2.4%	-0.4%	0.4%	2.4%	3.7%
Number of Bankruptcies	-1.5%	-2.8%	-3.2%	10.4%	5.8%	22.2%	24.1%
Residential Construction Starts	-9.2%	-0.5%	-3.7%	-1.5%*	-3.4%	-1.7%	-3.7%*
Job Openings to Applications (ratio)	0.68	0.61	0.61	0.59	0.57	0.58	0.59
Nominal Wages	5.3%	4.5%	5.1%	3.7%	3.8%	-1.5%	3.5%
Labor Productivity	2.4%	1.0%	2.1%**	1.8%**	4.5%	n.a.	n.a.
Wholesale Prices	1.4%	1.8%	1.9%	-1.9%	-2.4%	-2.9%	-3.2%
Consumer Prices	4.9%	2.7%	2.7%	1.9%	2.2%	1.2%	0.7%
Yen-Based Export Prices	1.2%	3.9%	4.6%	-5.9%	-7.0%	-6.0%	-6.6%
Yen-Based Import Prices	1.6%	7.9%	7.2%	-6.0%	-10.1%	-9.5%	-10.6%

*Preliminary

**Through July of each year only.

For Japan's most recent GNP figures, see JEI Report No. 36B, September 23, 1983.

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JEI REPORT

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YEAR-END REVIEW OF FOREIGN ECONOMIC LEGISLATION

Summary

The Reagan administration achieved many of its legislative goals in 1983, but fell short of equaling the record of the 97th Congress, when it registered dramatic successes while tossing the Democratic Party into confusion. Many alliances of the previous Congress crumbled, as members reassessed party and individual goals in anticipation of 1984 election campaigns. Politics will play an even more important role in congressional deliberations during the coming year, as voters continue evaluating the Reagan record and the Democratic Party attempts to restore its traditional coalitions to regain control of the White House and Congress.

Progress on foreign economic legislation was hampered both by shifting political alliances and by the difficult decisions facing lawmakers in resolving conflicts between policy goals and private interests. Eximbank funding, revisions of the Export Administration Act and International Monetary Fund (IMF) replenishment measures all stirred controversy in Congress as the administration sought to further the ideological course it began in 1981. Some protectionist measures made significant progress during the session, particularly the domestic content proposal backed by the United Auto Workers (UAW) union.

Power Shifts in Congress

In its first two years in office, the Reagan administration achieved what most observers feel was the most surprising series of legislative victories in recent memory. Bolstered by the support of southern Democratic conservatives and the euphoria accompanying the 1980 electoral sweep, administration leaders posted a number of victories on social spending cuts, defense program increases and other conservative Republican items. For the first two years, the Democratic Party was disorganized and was unable to respond to what appeared to be a legislative steamroller driven by Ronald Reagan.

The tide began to turn with the 1982 elections. Democrats made a strong showing, picking up several seats in the House and demonstrating that issues upon which the party traditionally has capitalized could still be damaging to the GOP. The Democratic performance forced many congressmen, particularly Republicans, to reconsider party allegiance and opt for the more pragmatic goal of winning reelection in 1984. With 13 Republican senatorial incumbents up for election, it soon became clear that the dramatic gains of 1980 could be lost if the president's goals were pursued too stridently.

These developments influenced foreign economic policy debates in Congress and affected issues between the United States and Japan. With the Republican working majorities of the previous Congress weakened, individual legislators were forced to turn their attention to the domestic implications of foreign policy disputes, with one eye always on 1984. Promoting bills simply on their international merits became more difficult. The administration, although aware of its reduced strength in Congress, was determined nevertheless to continue policies initiated during the first two years aimed at reducing social spending while increasing defense expenditures. Its agenda was clear, but its ability to further it was significantly reduced.

The Democratic Party, led by House Speaker Thomas P. (Tip) O'Neill, used legislative issues pending before Congress to reassert positions that had seemingly been discredited just a few years earlier. Speaker O'Neill emphasized the "fairness" issue and promoted legislation which, even though doomed in the Republican-controlled Senate, would set the stage for the 1984 elections. In the process, several foreign policy and economic measures became inextricably linked with purely domestic political concerns. Aware of O'Neill's renewed authority in the House, President Reagan emphasized compromise and bipartisanship when several of his key legislative proposals faced crucial votes, including the MX missile, the Lebanon War Powers Resolution and additional U.S. contributions to the International Monetary Fund. In each case, the administration appealed to broader concerns to secure passage of the bills. Without functional majorities in both houses, President Reagan had to rely more on the prestige of the presidency to persuade legislators to support his proposals.

Another significant trend in Congress was the changing authority of congressional committees over international trade and economic matters. The Energy and Commmerce Committee, chaired by Rep. John Dingell (D, Mich.), continued to assert jurisdiction over local content legislation and related bills at the expense of the House Ways and Means Committee and particularly its International Trade Subcommittee, chaired by Rep. Sam Gibbons (D, Fla.). The House Banking Committee also played a more prominent role in international monetary legislation due to its role in the IMF funding bill.

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The House Foreign Affairs Committee also is likely to see changes in the coming year due to the death of its chairman, Rep. Clement Zablocki (D, Wisc.). Zablocki allowed his subcommittee chairmen flexibility in initiating action on a variety of issues and exerted his authority at the committee level. His likely successor, Rep. Dante Fascell (D, Fla.), probably will assert more authority over subcommittee agendas. The committee, often a lackluster body in comparison with its glamorous Senate counterpart, could become more dynamic under Fascell, who generally takes a conservative view in foreign policy issues.

Specific Developments

Reciprocity - What was once the hottest trade issue in Congress took a back seat to other concerns in 1983. Sen. John Danforth's (R, Mo.) reciprocity bill, S. 144, was approved in the Senate and attached to a measure repealing withholding on interest and dividends. Lack of House support for the reciprocity concept forced Senate conferees to drop the provisions from the withholding bill, but not before the House promised to hold hearings on the subject.

Those developments ended the prospects for administration-backed changes in existing trade laws to expand the authority of the U. S. Trade Representative to negotiate in new areas, including services trade and reciprocal market access. The House Ways and Means Committee reported H.R. 1571 on September 27, which would expand the executive's retaliatory authority on questions of reciprocal market access, but the bill did not reach the floor before Congress adjourned. Another reciprocity bill, H.R. 2848, was reported unfavorably by the committee prior to the end of the session.

Reciprocity was the victim of a trend which emphasized more industry-specific bills as election year fevers rose. The Danforth proposal -- which first emerged in response to criticism of Japan's closed markets -- lost momentum as administration-supported changes transformed the bill from a potentially protectionist vehicle into moderate legislation aimed at addressing changes in the international trade arena. As the agenda in Congress became more politicized, support for broader measures faded while specific "solutions" to industry problems became more popular. This trend, which holds more potential for enactment of protectionist legislation, is likely to continue in 1984.

Export Administration Act - One of the most controversial and complicated trade bills of the year was the extension of the executive's authority to control exports of sensitive technology to other countries. The Reagan administration, obsessed with the leakage of sophisticated technology to the Soviet Union, sought strengthened controls while the American business community, concerned with the possible loss of sales and U.S. credibility among overseas buyers as a reliable supplier, sought relaxed controls. Japan was caught in the issue due to its economic ties with the Soviet Union and its reputation among many U.S. officials as a security sieve.

Alexander Towbridge, president of the American Manufacturers Association, set the tone for industry positions in congressional hearings early in the year. Towbridge urged limiting executive discretionary authority in instituting controls on exports already under contract or involving extraterritoriality. He claimed that many previous reforms, such as mandated presidential-congressional consultations, have been ignored in practice and that American businesses were losing customers as a result. To opponents of strengthened controls, the most dramatic demonstration of capricious executive action was the administration's attempt to halt previously contracted shipments of American products to European buyers for ultimate use in constructing the Siberian gas pipeline.

The House approved a bill on October 27 (H.R. 3231) to modify existing controls and allow exporters to forego licensing for shipments to Western European nations and Japan. The Senate took a stricter line, as evidenced by S. 969, sponsored by Sen. Jake Garn (R, Utah). The Garn bill addressed criticism that the Department of Commerce administers the existing law ineffectively and is constrained by inherent bureaucratic conflicts in both promoting and restricting exports to other countries. The legislation, which would have tightened controls while establishing a separate Office of Strategic Trade, was approved by the Banking Committee on May 23 but never reached the floor for a vote.

The Senate's inability to produce a measure which could be reconciled with H.R. 3231 necessitated congressional approval of legislation to temporarily extend the president's export control powers, which otherwise would have expired on September 30. Two extensions were approved, the first just before the scheduled expiration date and the second in the closing hours of the session. The temporary controls are authorized until February 29, 1984, although it is uncertain that both houses will be able to agree upon a compromise bill before then.

A side issue relevant to U.S.-Japan relations that delayed the progress of the Export Administation Act was the question of Alaskan oil exports. The previous bill had outlawed exports of Alaskan oil under certain conditions. Arguing that similar prohibitions existed in other active statutes, the administration sought a bill free of the ban. Sen. Frank Murkowski (R, Alaska) at one point threatened to filibuster against the act if it contained a clause banning Alaskan oil exports. Maritime interests, fearful that the move was the first of a series to eliminate all bans on Alaskan oil exports, fought the deletion of the prohibition, insisting that such provisions were necessary to protect American consumers and provide energy security. It is unlikely that the drive to remove all such prohibitions from the books during the coming year will gain much ground.

Trade Adjustment Assistance - The administration was forced to concede to congressional pressure to extend the Trade Adjustment Assistance program because of the bill's political implications. Initially opposed to continuing the program, the White House accepted a two-year extension (PL 98-120) which was cleared on September 30. The original House version, which called for an expanded assistance effort, was one of a series of measures that the Democratic-controlled House said demonstrated the issue of fairness and the need for federal spending during periods of high unemployment.

Department of Trade - Although Commerce Secretary Malcolm Baldrige denied such suggestions, the Department of Trade bill promoted by the administration in 1983 smacked of a "do as Japan does" approach and sought to rationalize U.S. trade policy by reorganizing the federal bureaucracy. With one eye on Japan's Ministry of International Trade and Industry (MITI), the bill's supporters suggested that by consolidating its trade bureaucracy, the United States could increase international competitiveness and enforce existing trade laws more effectively.

The chief trade reorganization bill was S. 121, sponsored by Sen. William Roth (R, Delaware). Supported by the administration, it would combine the Office of the U.S. Trade Representative with trade-related offices in the Department of Commerce into a separate Department of International Trade and Industry (DITI). The bill was reported by the Senate Government Affairs Committee on October 18, but did not reach the floor for a vote. Progress of counterpart bills in the House was delayed by Democratic proposals to include vague industrial policy provisions in the legislation.

Future prospects for DITI legislation are unclear. The bill -- minus the industrial policy sections -- still has administration support, but it could get lost in election year politics, particularly if industrial policy proponents try to hold their ground and institutionalize their concepts.

Local content bill - The House of Representatives approved H.R. 1234, the local content bill sponsored by Rep. Richard Ottinger (D, N.Y.), by a 219-199 vote on November 3. The vote came just two days after MITI announced an extension of "voluntary" restraints on Japan's automobile exports to the United States for a fourth year beginning in April 1984. Local content is the most important legislative item pending in Congress for the United Auto Workers. The UAW made the bill the sole standard for candidate endorsements in the 1982 elections. Together with Ford Motor Co. and Chrysler Corp., the union lobbied heavily to secure House passage before the end of the year to allow as much time as possible to force Senate consideration of the bill.

Conventional wisdom contends that the Republican-controlled Senate will not pass the bill in 1984 and that, even if it does, the president most certainly will veto it. However, several factors could aid this initiative in the Senate. Thirteen Republicans face reelection in 1984. Democratic support for local content is strong and all but one of the party's presidential candidates has endorsed the concept in one form or another. Finally, the influence of Majority Leader Howard Baker (R, Tenn.) could diminish through the year as his retirement nears. Given these circumstances, it is highly possible that local content supporters will be able to bring the bill to the floor in some fashion before the end of the year. Proponents of S. 707 -- the Senate counterpart of H.R. 1234 -- probably would like to see the bill come up toward the end of the session in October, just before the November congressional and presidential elections, to maximize pressure on the administration and on undecided Senate members.

Trade remedies - Consideration began during the year of various proposals to amend existing trade statutes to facilitate import relief procedures. Supporters of revised standards offered several criticisms of American trade relief laws and processes, among them the following:

- Standards for proving injury are too stiff.
- The executive branch has too much discretionary authority in determining appropriate responses to unfair foreign trade practices.

- The cost of filing import relief petitions is prohibitive.
- Procedures for securing relief are too time consuming. By the time solutions are implemented, irreparable damage already has been done to the affected domestic industry.
- Existing laws do not address industrial targeting practices.

While supporters of current practices admit that administrative procedures could be expedited, they nevertheless rejected proposals to liberalize the relief provisions of the 1974 Trade Act, fearing that standards for establishing injury could become so loose as to be meaningless. Virtually any complainant, they claim, could qualify for relief should the Trade Act be amended further. Also rejected by administration officials at hearings held early in the year was the "threat of injury" concept as grounds for import relief. "Threat of injury," some contended, could be confused with normal marketplace competition and could easily become a severely protectionist mechanism if codified.

DISC Replacement - The White House introduced proposals in 1983 to replace the Domestic International Sales Corporation (DISC), a controversial corporate device which attempts to stimulate American exports by allowing deferral of taxes on export income. DISC has been denounced by the General Agreement on Tariffs and Trade (GATT) as an illegal subsidy under Article 16 of the agreement.

The Cabinet Council on Commerce and Trade approved a DISC substitute on March 2 which would allow the establishment of partially tax-exempt corporations based abroad through which export sales could be made. Income from export sales would be allocated to a Foreign Sales Corporation (FSC) and a related American company using "arm's length" procedures described in the Internal Revenue Code, or one of two alternative formulas proposed by the administration. The plan was not well received by the business community, which criticized it as a potentially burdensome and costly alternative to the DISC. The most attractive feature of the DISC -- immediate earnings potential through exempting income from taxes -- would be diluted under the proposal. Two other bills sought revisions of the DISC in 1983. S. 28, the Export Sales Corporation Act, was introduced by Sen. David Boren (D, Okla.), while the DISC Revision Act, H.R. 1673, was offered by Rep. Guy Vander Jagt (R, Mich.). Neither bill made significant progress during the session.

IMF Funding - One of the most controversial measures before Congress was the authorization to increase the U.S. contribution to the International Monetary Fund by $8.4 billion to help offset credit problems facing several developing countries. The measure's opponents decried the bill as a bailout for big banks, overextended because of huge loans to poor credit risks. Supporters countered by emphasizing the importance of American commitments to international lending and development institutions.

The IMF funding bill, approved on November 18, was an example of the administration's decision to rely on the prestige of the presidency to offset the loss of support that had protected it in the previous two years. Bipartisan opposition to the bill was strong. Although a back-door approach ultimately was necessary to get the bill through Congress, the administration was able to secure passage through moral suasion in spite of divisions within its own party and objections of key Democratic leaders. In addition to IMF funding, the bill extended Export-Import Bank authorizations until September 30, 1986. It also reauthorized the Asian Development Bank and the Inter-American Development Bank, and extended the Defense Production Act until March 30, 1984.

Outlook for 1984

The prospects of several pending bills will be clouded during 1984 as political maneuvering becomes more overt. The presidential primaries and subsequent November elections will abbreviate the next session of Congress, which is not scheduled to get under way until January 23. Four one-week to ten-day recesses are scheduled in addition to two month-long breaks for the national conventions. Serious consideration of important legislation will thus be hampered and the possibilities of intense debate over emotional political issues such as local content legislation will be enhanced.

Although some indicators suggest improvement in the economy, domestic economic issues will play an important role in the election process as Democrats attack the Republican record on deficits, defense spending and social priorities. The Democratic political strategy will be to demonstrate concern for its traditional constituencies by taking "substantive" actions in Congress. Of these, the most dramatic are short-term propositions promising immediate relief, such as local content bills or certain types of domestic spending measures. Serious foreign policy issues, including the American military role in Lebanon, are likely to add to the emotional atmosphere as campaigns accelerate.

Given such a climate, discipline will be required of the nation's leaders to focus attention on existing economic and trade issues between the United States and Japan. Reagan administration policies toward Japan are certain to come under fire, especially as negotiations over Japanese agricultural quotas reach a climax in the early spring. The temptation to "bash Japan" will be great in 1984 and is likely to manifest itself in congressional deliberations.

The local content bill now before the Senate Commerce, Science and Transportation Committee illustrates the types of pressures facing lawmakers and the administration. Aimed as much at the world car strategy of General Motors as at Japanese imports, the bill nevertheless is perceived as a device to force Japanese investment in a market from which they have derived considerable benefit. The appeal of the proposal -- simplistic as it may be -- is great: If they want to sell the cars here, they should build them here.

The emphasis in this dispute on "fairness" is consistent with the pattern established early in the year by House Speaker O'Neill. Local content is no longer seen as a bill which would inflate prices on all automotive products in the United States, but rather as a legislative tool to enforce "fairness". With elections approaching, it will be difficult to resist supporting such a bill.

This cycle is familiar to most observers of the U.S. electoral process. Using foreign scapegoats during campaign seasons is not unique to this country or this election year. However, continued perceptions of economic difficulties have brought legislators closer to endorsing a range of protectionist measures than they have been in recent years. Further, as each candidate jumps on a local content bandwagon, it becomes increasingly difficult to snuff the fires out once and for all. Domestic content has become an institutional creed for one of the major parties in 1984. Even if that party does not regain control of the White House and Congress in November, candidates will have committed themselves to the concept and their supporters will not let them forget it. As support for the concept grows, pressure on its opponents can only increase.

There will be any number of local content debates in Congress during the coming year. Steel and electronics are only two of dozens of industries in which legislative proposals have been discussed. These remedies can only contribute to increased tensions between the United States and Japan. Whether the country can escape them remains to be seen.

For further information, contact Michael Chinworth.

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Table 1: 98th Congress, First Session

	House	Senate	Total
Days in session	146	150	--
Public bills enacted	114	104	215
Private bills enacted	6	--	6
Total measures passed	611	590	1,201
Total measures reported	497	570	1,067
Measures pending on calendar	105	155	--
Total measures introduced	5,642	2,795	8,437
Quorum calls	35	18	--
Yea-nay votes	297	381	--
Recorded votes	201	--	--
Bills vetoed	4	3	7
Vetoes overridden	1	1	--

Table 2: Selected International Legislation Enacted

Subject	Date Introduced	Date Approved House	Date Approved Senate	Public Law Date	Public Law Number
Extension of 1950 Defense Production Act	3/16	3/22	3/23	3/29	98-12
Supplemental aid to Lebanon	3/1	6/2	5/20	6/27	98-43
Supplemental appropriations (foreign aid, including Lebanon)	5/18	5/25	6/16	6/30	98-63
Interest/dividend withholding repeal; Caribbean Basin Initiative	5/11	5/17	6/16	8/5	98-67
KAL 007 resolution	9/13	9/14	9/15	9/28	98-98
Extension of Export Administration Act	9/22	9/27	9/30	10/1	98-108
Radio Marti funds	2/24	9/29	9/13	10/4	98-111
U.S. forces in Lebanon	9/12	9/28	9/29	10/12	98-119
Trade Adjustment Assistance; Int'l. Coffee Agreement	8/4	9/27	9/30	10/12	98-120
Continuing Resolution (including Grenada/El Salvador aid)	11/9	11/10	11/11	11/14	98-151
State Department authorization	5/5	6/9	10/20	11/22	98-164
FY 84 supplemental appropriations (IMF/Eximbank)	9/22	10/5	10/27	11/30	98-181
Second extension of Export Administration Act	11/18	11/18	11/18	12/5	98-207
DOD appropriations	10/20	11/2	11/8	12/8	98-212

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JAPAN · ECONOMIC · INSTITUTE

JEI REPORT

NO. 1B
January 6, 1984

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Elections Force Political Changes in Japan

The numbers tell the story. The ruling Liberal Democratic Party (LDP) won fewer seats than many pessimists predicted in lower house elections held December 18, forcing changes in the Nakasone Cabinet and adjustments in the prime minister's strategy for retaining political power beyond the expiration of his term as LDP party president at the end of the year.

Although preliminary polls had indicated the possibility of holding on to 270 seats, the LDP won only 250 (of 511) seats in the election, with a low 68 percent of the voters casting ballots in the contest. Surveys taken a few days before the elections showed a decline in support for the party, but still suggested that the LDP would be able to retain its majority in the lower house. The Clean Government Party (Komeito) picked up 25 seats in the election, while other opposition parties gained less than ten seats each (refer to tables in this issue for additional election figures).

The loss of 36 seats forced the LDP to establish an alliance with the New Liberal Club, a splinter party established after the Lockheed scandal exposed corruption within the LDP. With only six members in the Diet, the party had little claim to Cabinet representation. However, its representatives -- originally members of the LDP -- were more favorably disposed to a coalition with the LDP than other opposition parties, particularly left-wing groups. For the purpose of retaining control in the Diet, a coalition with the NLC was certainly the least offensive alternative.

Several factors contributed to the poor LDP showing. The party had more candidates running in multi-member districts than in 1980 when public sympathy for the party bloated its representation in the Diet. By running so many candidates in a year in which losses were expected, the LDP diffused its vote and lost more seats than it might have otherwise. The relatively low voter turnout, a manifestation of public disgust with Kakuei Tanaka's refusal to resign from his parliament seat, also damaged the LDP's chances. It was this issue that focused attention on the election. Mr. Tanaka, who ironically won more votes in his re-election campaign than ever before, steadfastly refused to step down from public office after his conviction and was determined to retain his power in national politics. His own faction fared well in the elections, dropping only four seats.

The lack of a domestic economic policy and confusion over the prime minister's commitment to an income-tax cut also hurt Mr. Nakasone, who sought instead to emphasize his role as a global leader. Japanese voters, while perhaps appreciative of his efforts, nevertheless held him accountable for the absence of decisive economic policies at home. The reputable Nihon Keizai Shimbun editorially criticized the prime minister for concentrating on foreign policy at the expense of domestic economic issues, suggesting that he might have been able to fool foreign nations into thinking he was a powerful leader, but not Japanese voters. Defense issues played a quiet role in the elections and were not as critical as suggested by some American media accounts. The vote was not a repudiation of Japan's defense buildup, although the issue might have hindered the LDP among women voters.

With his new coalition in hand, Nakasone announced his new Cabinet on December 26, appointing members from all major factions (see list at the end of this report). But the Tanaka faction was still the most heavily represented, with six of its members in major posts. Nakasone faction members were assigned to three positions, of which the most intriguing was the relatively unknown Minister of International Trade and Industry, Hikosaburo Okonogi. Tanaka confidante Susumu Nikaido was replaced by Rokusuke Tanaka (no relation) in the important post of LDP Secretary General. Rokusuke Tanaka is said to have the trust of Prime Minister Nakasone as well as many of the LDP's rival leaders.

The appointments were announced shortly after the prime minister met with senior LDP leaders and subsequently promised to limit the influence of Kakuei Tanaka in party affairs. In a statement issued December 24, Mr. Nakasone lamented party losses in the elections, but refused to resign from his office. Promising to restore the tarnished image of the party, he emphasized that he would pay more attention to ethics in government. The statement reportedly was written by former LDP Secretary General Susumu Nikaido. That posibility raises the question of whether the former prime minister himself, aware of his victories at the expense of his own party, has moved to lower his public profile while protecting his power base in the LDP and that of the current prime minister. Another possibility is that Mr. Nikaido is moving independently or in cooperation with another faction leader to push Mr. Tanaka out of the spotlight and reduce his role in Japanese politics.

Michael Chinworth

Lower House Election Results

	Number of Candidates		Seats Won		Percent of Vote Won	
	1980	1983	1980	1983	1980	1983
Liberal Democratic Party (LDP)	310	337	284	250	47.9%	45.8%
Japan Socialist Party (JSP)	149	144	107	112	19.3	19.5
Clean Government Party (Komeito)	64	59	33	58	9.0	10.1
Democratic Socialist Party (DSP)	50	54	32	38	6.6	7.3
Japan Communist Party (JCP)	129	129	29	26	9.8	9.3
New Liberal Club (NLC)	25	17	12	8	3.0	2.3
Shaminren	5	4	3	3	0.7	0.7
Minor Parties	42	18	0	0	0.2	0.1
Independents	61	86	11	16	3.5	4.9
Total	835	848	511*	511	100	100

*The lower house had 13 vacancies between 1980 and 1983.

* * *

The Second Nakasone Cabinet

Name	Position	Age	Faction
Yasuhiro Nakasone	Prime Minister	65	Nakasone
Eisaku Sumi	Justice Minister	63	Suzuki
Shintaro Abe*	Foreign Minister	59	Fukuda
Noboru Takeshita*	Finance Minister	59	Tanaka
Yoshiro Mori	Education Minister	46	Fukuda
Kozo Watanabe	Health and Welfare Minister	51	Tanaka
Shinjiro Yamamura	Agriculture, Forestry and Fisheries Minister	50	Tanaka
Hikosaburo Okonogi	International Trade and Industry Minister	55	Nakasone
Kichizo Hosoda	Transportation Minister	71	Fukuda

Keiwa Okuda	Posts and Telecommunications Minister	56	Tanaka
Misoji Sakamoto	Labor Minister	60	Komoto
Kiyoshi Mizuno	Construction Minister	58	Suzuki
Seiichi Tagawa	Home Affairs Minister	65	NLC
Takao Fujinami	Chief Cabinet Secretary	51	Nakasone
Ichiro Nakanishi	Director General, Prime Minister's Office	68	Fukuda
Masaharu Gotoda+	Director General, Administrative Management Agency	69	Tanaka
Yuko Kurihara	Director General, Defense Agency	63	Suzuki
Toshio Komoto	Director General, Economic Planning Agency	72	Komoto
Michiyuki Isurugi	Director General, Science and Technology Agency	70	Suzuki
Minoru Ueda	Director General, Environmental Agency	69	Tanaka
Takashi Mogushi	Director, Cabinet Legislative Bureau	62	Ind.

*Retained from first Cabinet.
+Changed positions from first Cabinet.

* * *

LDP Party Positions

Rokusuke Tanaka	Secretary General	60	Suzuki
Shin Kanemaru	Chairman, Executive Council	69	Tanaka
Masayuki Fujio	Chairman, Policy Affairs and Research Council	66	Fukuda

Impact of Election on Japanese Domestic Politics, U.S.-Japan Relations

Prime Minister Nakasone's likelihood of surviving in office given the disastrous election results has been questioned by many observers in both Japan and the United States. While there can be no doubt that the elections damaged Mr. Nakasone, even a better showing would have left him with the same problems he now has in building his own power base within the LDP in time for the November 1984 party elections. However, his political vulnerability, which has always been a factor, was exposed by the December vote to a much greater degree than he might have expected.

The prime minister's essential political problem is his shallow power base and his continued dependence upon Kakuei Tanaka's faction for support. A favorable showing in December would have aided him in expanding his influence while putting some distance between himself and Tanaka. The LDP's poor showing has made his task more difficult and has added a sense of urgency to the moves he will make between now and November.

Assuming the continued solidarity of the Tanaka faction, Mr. Nakasone will have a better than average chance of being re-elected to the party presidency, which is tantamount to election as prime minister. The Tanaka

Japan's Real Gross National Product at Constant Prices (1975 Prices)

(in billions of yen, seasonally adjusted, quarterly totals and rates of growth at annual rates)

	FY 1981	FY 1982	October-December 1982	January-March 1983	April June 1983	July-September 1983
Gross National Product	Y198,068.2 (3.3%)	Y205,260.3 (3.3%)	Y206,040.4 (1.4%)	Y206,423.9 (0.7%)	Y208,683.0 (4.5%)	Y211,852.6 (6.2%)
Personal Consumption Spending	103,090.5 (1.1%)	108,092.5 (4.6%)	108,913.6 (6.1%)	109,712.5 (3.0%)	10,9915.3 (0.7%)	110,919.8 (3.7%)
Private Residential Construction	10,653.2 (-2.0%)	10,805.2 (1.3%)	11,370.6 (54.6%)	10,969.5 (-13.4%)	9,577.3 (-41.9%)	9,904.1 (14.4%)
Private Fixed Nonresidential Investment	34,130.3 (4.4%)	35,208.3 (2.8%)	35,290.9 (-0.8%)	35,070.6 (-0.6%)	35,400.2 (3.8%)	35,996.9 (6.9%)
• Change in Business Inventories	1,416.7 (23.1%)	1,237.9 (-30.4%)	939.5 (*)	53.4 (*)	884.8 (*)	340.4 (*)
Government Current Expenditures	18,839.4 (3.9%)	19,347.3 (2.0%)	19,404.7 (2.4%)	19,502.5 (2.0%)	19,622.4 (2.5%)	19,828.2 (4.3%)
Government Fixed Investment	18,581.9 (2.9%)	18,470.2 (1.1%)	18,406.6 (-11.8%)	17,875.3 (-11.1%)	18,768.8 (21.6%)	18,932.2 (3.5%)
Change in Government Inventories	-272.3 (15.0%)	-371.2 (-136.3%)	-806.3 (*)	-291.3 (*)	-206.0 (*)	-165.6 (*)
Net External Sector	11,628.5 (38.6%)	12,470.2 (6.9%)	12,520.7 (10.4%)	13,531.5 (36.4%)	14,720.2 (40.0%)	16,096.6 (43.0%)
Exports of Goods and Services and Factor Income Received	40,001.2 (15.3%)	40,282.6 (0.7%)	40,060.5 (-8.5%)	39,891.5 (-1.7%)	41,108.1 (12.8%)	43,150.4 (21.4%)
Imports of Goods and Services and Factor Income Paid	28,372.7 (7.8%)	27,812.4 (-1.9%)	27,539.8 (-15.8%)	26,360.0 (-4.3%)	26,387.9 (0.4%)	27,053.8 (10.5%)

*Cannot be calculated or meaningless.

Source: Economic Planning Agency

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JAPAN · ECONOMIC · INSTITUTE
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REPORT

NO. 2A January 13, 1984

U.S.-JAPAN RELATIONS: BEFORE AND AFTER THE ELECTIONS

Summary

In the aftermath of the elections in Japan, it is apparent that the setback suffered by the Liberal Democratic Party (LDP) created some political instability. On the U.S. side, there has been a steady accumulation of frustration during 1983 because the U.S. felt forced to maintain a low profile to avoid damaging the LDP's chances. This report describes the outcome of the elections and analyzes the effects on the new Nakasone administration as well as the implications for future U.S.-Japan relations.

Background

The most significant aspect of the elections was the coalition that the results forced on the ruling Liberal Democratic Party (LDP) and its one-time spin-off group, the New Liberal Club (NLC). Japan's first coalition government since 1948 gave the weakened LDP eight additional votes, but the new Nakasone Cabinet still takes office under shaky political circumstances. Although Mr. Nakasone proved to be a shrewd politician and was able to recover a majority in the Diet, his chances of being re-elected prime minister next November will depend on his adopting a domestically oriented agenda in place of the foreign policy concerns that characterized his first year in office.

For the United States, the domestic political atmosphere will make relations with Japan more difficult as the presidential election nears. The United States will take a harder line in its demands that Japan open its markets further and spend more to build up its military forces. At the same time, Japan will likely become less flexible because of the LDP's loss of a clear majority in the Diet. If it can, the Nakasone administration will try to impress the United States by its efforts on behalf of the defense budget, although it is unlikely to exceed the 1-percent ratio to GNP. In regard to trade issues, a compromise will be sought on the easing of beef and citrus quotas.

One of the few favorable signs for U.S.-Japan relations will be higher economic growth rates in both countries and a resultant decrease in unemployment. Balancing this, however, a rather low yen rate will continue to irk the U.S. business community, although both sides hope that the recent monetary policy innovations will lead to a stronger yen. Thus, after a one-year honeymoon period that was based on the "Ron-Yasu" personal relationship and the decision to avoid controversial issues in 1983, both countries must now enter into more practical and concrete discussions.

Setback and Partial Recovery

The outcome of the election can be analyzed in two parts: the immediate reaction and the political maneuvering which occurred during the following week. The initial results of the December 18th vote, which were quite different from the forecasts published just a few days earlier, represented a severe setback for the LDP. The LDP, which had held 286 seats, won only 250 (see JEI Report No. 2B of this week). The number-one opposition party -- the Japan Socialist Party (JSP) -- won 112 seats, up from 102 before the election. Komeito, the Clean Government Party, attained the largest gain with 25 seats, bringing its total to 58. The Democratic Socialist Party (DSP) also made a good showing, gaining five seats to raise its total from 33 to 38. The Social Democratic Federation (Shaminren) kept its representation at three.

Losers included the Japan Communist Party (JCP), which dropped three seats to 26, and the New Liberal Club (NLC), which lost four seats and was left with a total of only eight. In an effort to retain some power, the remaining NLC members voted to join a coalition government with the LDP. The decision -- a first for the LDP -- was announced on December 26th, the same day that Mr. Nakasone was renominated and the new Cabinet was formed. The opposition parties, which had hoped that a united front would give them more influence in the new administration, were sharply disappointed with the deal struck by the NLC and denounced the party for betraying the voters who had supported its hard-hitting criticism of the LDP.

The anger of the opposition forces suggests the advantage the coalition afforded the LDP. Last-minute maneuvering enabled the prime minister to increase the number of LDP seats by 17 -- the first nine from the ranks of conservative candidates who ran as "independents" without formal LDP endorsement. This still did not give the LDP a large enough majority in the Diet to retain the chairmanships of the 18 standing committees of the lower house, however, and the eight NLC seats were necessary to provide the majority it needed to retain committee chairmanships. This was particularly important in the case of the Budget Committee in order to avoid delays in implementing budget decisions. The LDP was thus able to hold on to 15 of the 18 chairmanships of the standing committees.

In addition, Mr. Nakasone was also able to expand the power of his own faction by persuading former Finance Minister Michio Watanabe's group to rejoin his faction -- which it had abandoned in 1979. This enabled the Nakasone faction with 51 members in the lower house to overtake the prominent Suzuki faction (50 members, down from 62). The Tanaka faction is still the largest with 63 members, as compared to 65 before the election. Former prime minister Takeo Fukuda's faction has 40 members, down from 46; the Komoto faction has 28; and the Shintaro Ishihara faction has seven.

Nakasone's Political Style

At only 67.94 percent, voter turnout for the elections was the lowest in postwar Japanese history. Moreover, the LDP's percentage of the total vote fell from 47.88 percent in the last (1980) election to 45.76 percent, a sharper drop than recorded by the various opposition parties. Both factors suggest that the voters showed some personal ill-will toward Mr. Nakasone and the LDP, although they demonstrated their dissatisfaction by not voting rather than by supporting the opposition. Political analysts say that the voters were guided by the conviction that Mr. Nakasone had ignored the ethical problems raised by his government's strong reliance on Kakuei Tanaka, the convicted former prime minister. Other observers point out the uneasiness many Japanese feel at the prime minister's strong pro-defense position.

Election tactics have also been blamed for the setback. Critics argue that the LDP allowed too many candidates to run with party endorsement, creating contests in some electoral districts in which LDP candidates were forced to run against each other. This afforded the opposition the opportunity to form temporary coalitions and concentrate anti-LDP votes on the candidates selected by the coalition. It has also been suggested that the unusually strong LDP showing in the last general election, held in June of 1980 just after the death of then Prime Minister Ohira, made the ruling party overconfident.

A possible underlying reason could be attributed to the Japanese cultural preference for a certain vagueness. In contrast to the familiar argument that politicians should clarify and delineate their positions to the voters, the Japanese do not like to have certain facts pointed out too clearly even when they agree with those facts. Of course the Japanese, particularly conservatives, understand perfectly well that politics and ethics are not mutually reinforcing, but even this group is uneasy when confronted by evidence that ethics do not play a prominent role. Other key members of the Nakasone administration, such as former Justice Minister Akira Hatano, also brushed off the ethics issue. Mr. Hatano, who was certainly the Cabinet member most responsible for ethical behavior, was reported to have teased critics of the LDP saying, "To ask politicians to be ethical is like seeking fish at vegetable shops." It is easy to imagine how those voters who supported the LDP rather passively, in part because they did not expect anything from the opposition, were discouraged from even voting that Sunday.

The same reluctance was a factor in the defense question, even from voters who recognized the importance of military expansion in maintaining a cooperative relationship with the West. They could not help worrying about Prime Minister Nakasone's position, especially on those occasions when he met with Western leaders. Ironically, to Japan's Western partners, Mr. Nakasone is the most appealing of Japan's prime ministers. But few Japanese appreciate the prime minister's brand of frankness. Quite a few older Japanese women expressed the fear that Mr. Nakasone's defense line was too close to President Reagan's hard anti-Soviet position.

To some voters, the prime minister seemed too proud of his foreign activities, and unnecessarily emphasized his visit to South Korea, his meetings with Mr. Reagan and his numerous contacts with other heads of state from China, West Germany and Canada. In the campaign, he implied that if the LDP lost the election, Japan would lose its international credibility, thus equating the national interest with the interests of the LDP. A number of voters, particularly conservatives, actually concur on this point, but resent being lectured to in this manner. Such external pressure tactics -- "gai-atsu" -- are often used by the Japanese government to try to persuade domestic opponents to change their position, although it is usually done in a rather low-key manner. In short, Mr. Nakasone is not as popular domestically as internationally, and it is partly because of his political style. Many conservatives who do not strongly support the LDP and who often cast the deciding votes in an election were uncomfortable with this approach, and while it worked well in the international arena, it became somewhat self-defeating at home.

The 1984 Election

The new Cabinet was formed with an eye toward the November 1984 election for LDP president. Immediately after the December general election the possibility of Nakasone being re-elected to the party presidency seemed remote, but the political maneuvering which occurred during the following week considerably improved his chances. The highlight of the new Cabinet was the nomination of Rokusuke Tanaka (Suzuki faction) as secretary-general. The announcement came after a bitter confrontation with former Prime Minister Zenko Suzuki, who supported one of the LDP's "new leaders." Mr. Nakasone obviously seems to be following a strategy to keep his strongest rival, Kiichi Miyazawa, from being promoted to the LDP's number-two position by retaining two other "new leaders," Noboru Takeshita (Tanaka faction) and Shintaro Abe (Fukuda faction) in the important Cabinet posts of Finance and Foreign Affairs.

The balance of factions (Table 4) in the key positions in both the party administration and the Cabinet remains almost the same as in the first Cabinet, suggesting that Mr. Nakasone did not carry out his promise to certain senior LDP members to eliminate Mr. Tanaka's influence. This promise, which was quite unusual in Japanese political history, was seen as a spur toward recovery for the LDP and a serious effort to assert the NLC's claim to a re-shaping of LDP political ethics. The NLC, which had taken the hardest line during the campaign, stated that it could now cooperate with the LDP in one political organization (the LDP-NLC National Union).

The removal of two powerful Tanaka faction members, Susumu Nikaido and Masaharu Gotoda, from the posts of secretary-general and chief Cabinet secretary, respectively, might be considered evidence that Mr. Nakasone did live up to his promise. However, Mr. Nikaido is expected to be nominated as deputy leader of the LDP at its annual meeting in January and Mr. Gotoda remained in the Cabinet as director-general of the Administrative Management Agency. The nomination of Seichi Tagawa, the leader of the New Liberal Club, as Home Affairs Minister, is cited as proof of Mr. Nakasone's commitment to clean government since this position oversees all police activities and was previously held by a Tanaka affiliate. But the fact is that the Tanaka faction still holds the greatest number of key party and Cabinet positions, which Mr. Nakasone says is because it is unfair to keep talented people out of key positions simply because they belong to the Tanaka faction.

In marked contrast to the care taken to balance intra-party differences, key international posts were filled by lesser-known LDP figures. The retention of Minister of Foreign Affairs Shintaro Abe will provide continuity on unresolved issues, but the new Ministers of International Trade and Industry (MITI), Agriculture and Defense -- posts which handle important and difficult international issues -- are all relatively inexperienced in those fields. In addition, Mr. Nakasone evidently sees no serious need to name a Japanese counterpart to Vice President Bush, who at the time of President Reagan's visit to Japan was placed in charge of all U.S.-Japan negotiations. Mr. Nikaido, the former LDP secretary-general, was apparently sounded out on this possibility, but is said to have declined the post. No one else has been asked. Mr. Abe is reported to have said that the present organization of international economic policy does not require the creation of a new position.

Public Reaction

Many journalists appear to be quite critical of the new government and have roundly attacked Mr. Nakasone's continued reliance on Tanaka. During the tense period immediately after the election, it was widely expected that certain reforms would be adopted. These hopes were dashed, however, after just one week. The opposition, too, had expected to enjoy more power vis-a-vis the LDP. Both camps agreed with Asahi Shimbun, which editorialized, "Where has the (LDP) presidential statement gone?"

On the other hand, business circles, eager to see a new Cabinet formed quickly, are generally relieved and pleased. They are anxious to have the new budget passed quickly and would like to see the government achieve prompt success with administration reform. Chairman Bunpei Otsuki of the Japan Federation of Employers Associations (Nikkeiren) said that "now the real work on administrative reform must be done."

This contrast in attitudes is nothing new. There does, however, seem to be some agreement that the LDP should disengage from Tanaka. Even within the business community there is a tiredness about the issue. While there is still strong support for the LDP, the business sector seems to have hardened its appraisal since the conviction.

Relations Between Japan and the United States

Japanese Domestic Politics -- Even with the new coalition, the chief executive will have a harder time maneuvering than when the LDP enjoyed a clear majority in the Diet. As a result, his focus is apt to be narrower than during his first regime when he was free to pursue such issues as trade and defense. On the other hand, the United States has entered an election year when it is apt to become protectionist and may well press its trading partners for more concessions in order to appeal to the electorate. These conflicting agendas are likely to increase bilateral tensions in 1984.

The LDP will have to consult with the opposition parties under the new Diet political configuration to avoid delays in the implementation of the new fiscal year budget. The LDP-NLC coalition, in particular, will require sensitivity on both sides if it is to endure. Inside the LDP, the new leaders will take a "wait and see" position. Mr. Komoto, however, does not seem to want to be kept waiting. Because of his age (72, seven years older than Mr. Nakasone), he cannot be considered a "new leader" and he may look for a chance to challenge the prime minister. His activities should be watched closely as the election for LDP president approaches.

Nor will Prime Minister Nakasone be as relaxed as he was in 1983. If his re-election seems uncertain, he might decide to dissolve the Diet again in mid-year in order to obtain the majority necessary to launch his candidacy. One Japan Socialist Party (JSP) representative from Kyushu has already said that he has to start preparing for the "next" general election -- which he expects to be scheduled within the year.

Even within the LDP, there are grave doubts about the governing ability of the new Cabinet. Kazuo Aichi, former parliamentary vice minister for foreign affairs, commented in an interview with JEI that with "all those difficult questions like agricultural imports, defense and the budget deficit, Mr. Nakasone should forget about being re-elected. When I review what he has done up until now and I look at the new administration, I can't help but be pessimistic."

Macroeconomic Policy -- The first task the new administration faces is the drafting of the FY 1984 budget. The Cabinet is scheduled to adopt the budget during its meeting on January 25th, after which it will be sent to a special session of the Diet for deliberations starting on February 6th. The United States and Western Europe are demanding that Japan adopt a more positive fiscal policy in order to stimulate its economy and expand imports. However, the Japanese government feels that the expansion of the budget necessary to achieve this type of economic stimulation is almost impossible because of the huge budget deficit. Because the leadership cannot ignore the red ink and is in a weaker position now than it was last year, it is expected to quietly disregard the request.

If Mr. Komoto wishes to initiate a series of actions to carry him to the leadership of the LDP, he will have to challenge Mr. Nakasone on macroeconomic policy. In the past he has advocated economic expansion and he reiterated this stand at his first press conference as Economic Planning Agency director. However, he was not able to spell out any concrete policies to implement a stimulative economic program.

Defense Issue -- A key issue that is closely related to the outcome of the election and that may gravely affect the U.S.-Japan relationship is the decision on the level of Japan's defense expenditures for FY 1984. President Reagan, who has endorsed Japan's defense efforts, was quoted in the press as saying that "the United States remains convinced that the most important contribution Japan can make toward peace and security in Asia is for Japan to provide for its own defense and share more of the burden of our mutual defense effort."

The prime minister outlined Japan's position, confirming that "With respect to the improvement of our defense capability, I wish to make further efforts along the lines of the Joint Communique of May 1981."

The time has come for Mr. Nakasone to fulfill this pledge. However, the situation is more difficult now than it was at the time these smooth words were exchanged. First, because of the budget, total government expenditures will not be increased. Furthermore, since some budget items will automatically rise, such as interest on outstanding bonds, other outlays will somehow have to be lowered. Second, the election outcome makes fulfillment of the promise difficult. In order to cement the coalition with the NLC, the prime minister agreed to a statement confirming his intention "to observe the three principles of opposition to nuclear weapons as a fixed line of national policy, and to promote such peace-oriented diplomatic efforts as nuclear disarmament and a comprehensive national security policy."

Prime Minister Nakasone and the new Director General of Defense, Mr. Kurihara, have already announced that they will maintain the defense spending ceiling at one percent of GNP. Mr. Kurihara, a member of the Suzuki faction who follows its traditional dovish defense posture, may follow a line that is less hawkish than Mr. Nakasone's.

The Ministry of Finance is trying to hold the increase in defense spending to 5 percent despite the Defense Agency's request for a 6.9-percent increase. This conflict creates a problem because if the more austere position of the Ministry of Finance is adopted, it would be impossible to achieve the mid-term military buildup plan for FY 1983-87 which was agreed to in 1981. At the same time, it would undermine plans for the "1000 miles of sealane" defense. The United States is very concerned about both of these issues. Defense Secretary Caspar Weinberger stressed the importance of Japan's strengthening its sealane defenses in his speech at the National Press Club in Washington, D.C. on December 13, just a few days before Japan's general election. The timing of the remarks and their strong tone reveal the U.S. interest in a stronger defense commitment by Japan.

Trade Issues -- In this area, the problem of Japan's agricultural imports is the most urgent subject, particularly the decision on a new scheme for beef and citrus quotas due at around the end of March when the existing agreement expires. This is the most sensitive trade question in Japanese domestic politics and has already been discussed twice without any agreement. The fact that there have been three elections in Japan during 1983 has prevented the talks from making substantive progress. Observers say that the fear of political repercussions and the threat of political instability were additional obstacles.

The difference between the U.S. and Japanese positions is significant. The U.S. demand for orange exports calls for an increase of 25 percent each year over the 82,000-ton-level set for FY 1983. In regard to high-quality beef, the United States wants to increase the quota by more than 100,000 tons during the next four years over the 30,800-ton-level set for FY 1983. Japan, on the other hand, wants only an 8,000-ton increase in the orange quota each year and at the most a 50,000-ton increase in the beef quota. The Japanese are worried, however, that the beef and citrus issue will be raised before the GATT and they intend to try to work out a new proposal.

The other major issue is the liberalization of Japan's capital markets, which was raised by President Reagan in the context of the "undervalued" yen. Even if Japanese monetary authorities try to stress the upward trend of the yen in 1983, citing the mean value (Y237 in 1983 and Y249 in 1982), many in U.S. business circles must view the exchange level with some suspicion.

Outlook -- Since it has been assumed that trade frictions tied to the sluggish world economy have produced tensions in U.S.-Japan relations, we can expect improvement since most forecasts suggest a global economic recovery this year. If Japan achieves a growth rate of 5 percent as forecast, it would have the effect of stimulating imports and curbing exports. But when we look at the relationship from the standpoint of the domestic political situation in both countries -- particularly in conjunction with the elections, we see the existence of rather unfavorable circumstances for the relationship.

Takashi Hosomi, President of the Overseas Economic Cooperation Fund and a former vice minister of Finance, predicts that for the time being the United States will follow the actions of the new Nakasone administration very carefully to see whether it can respond to U.S. pressures in a manner the U.S. deems appropriate. He feels that the United States will watch the new Cabinet members in important ministries such as MITI, Agriculture and Defense closely during consideration of next year's budget to determine their strengths and abilities.

In an interview with JEI, Koichi Kato, one of former Prime Minister Ohira's closest aides and a key member of the LDP's Agricultural Policy Group, worried that three problems would plague the U.S.-Japan relationship. First, U.S. expectations are too high. Second, Prime Minister Nakasone's confidence in his leadership abilities persuaded him that he could handle many difficult problems -- which are not at all easily resolved. And third, the election outcome has now made some matters -- which both the Japanese and American sides reasonably anticipated could be handled, difficult if not impossible to resolve.

The first official talks between Japan and the United States after the election will be held when Foreign Minister Abe visits the United States, possibly in late January or early February. At that time, the countries will assess bilateral relations in the context of both countries' elections. It is clear that the relationship will be based on much broader factors than the "Ron-Yasu" friendship so frequently mentioned during 1983.

For further information, contact Hiroshi Ando.

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Table 1: Election Results

	Number of Seats Won	After the Coalition	Seats Won in 1980	Seats at the Time of Dissolution
LDP	250	267*	284	286
JSP	112	113	107	101
Komeito	58	59	33	34
DSP	38	39	32	31
JCP	26	27	29	29
NLC	8	*	12	10
Shaminren	3	3	3	3
Independents	16	3	11	4
Total	511	511	511	498

*After the coalition, the LDP and NLC set up a joint parliamentary association, the "LDP-NLC National Union." The figure for the LDP after the coalition includes NLC's eight members.

Table 2: Factional Power Balance in the LDP[1]

	Lower House			Total
Faction	Before the Election	After the Election	Upper House	After the Election
Tanaka	65	63	51	114
Suzuki	62	50	27	77
Fukuda	46	40	25	65
Nakasone[2]	48	51	9	60
Komoto	30	28	8	36
Ishihara*	6	7	1	8
Independents	31	22	15	37
Total	288	261	252	513

*formerly Nakagawa

Notes:

[1] Includes two non-LDP members, Kakuei Tanaka (Tanaka faction) and Takayuki Sato (Nakasone faction), who left the LDP after they were accused in the Lockheed scandal.

[2] The Nakasone faction after the election includes the former Watanabe group and others.

Table 3: Popular Vote by Party

	1976	1979	1980	1983
LDP	249	248	284	250
	(41.78%)	(44.59%)	(47.88%)	(45.76%)
JSP	123	107	107	112
	(20.69)	(19.71)	(19.31)	(19.49)
Komeito	55	57	33	58
	(10.91)	(9.78)	(9.03)	(10.12)
DSP	29	35	32	38
	(6.28)	(6.78)	(6.60)	(7.27)
JCP	17	39	29	26
	(10.38)	(10.42)	(9.83)	(9.34)
NLC	17	4	12	8
	(4.18)	(3.02)	(2.99)	(2.36)
Shaminren	-	2	3	3
	-	(0.68)	(0.68)	(0.67)
Independents	21	19	11	16
	(5.70)	(4.89)	(3.48)	(4.99)
Total Percentage of Vote	73.45	68.01	74.57	67.94

Note: In each column, the figures at top indicate the number of seats won while those in parentheses represent the share of the vote won.

Table 4: Factional Balance in LDP Administration and Cabinet

	LDP Administration		Cabinet	
	Before Election	After Election	Before Election	After Election
Tanaka	A	B	6 (1)	6(1)
Suzuki	C	A	4 (1)	4(1)
Fukuda	B	C	3	4(1)
Nakasone			2 (1)	3
Komoto			2	2
Ishihara			1	0
Independents			2 (1)	0
NLP			0	1

A: Secretary General
B: Chairman, Executive Council
C: Chairman, Policy Affairs Research Council

Note: The numbers in parentheses indicate upper house members.

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JAPAN-EC RELATIONS 1983: THE WINDING ROAD

Summary

The lingering effects of the global recession fueled the fires heating up relations between Japan and the European Community (EC) during 1983, spoiling the recipe in some cases, but also producing some positive results with implications for future trends. Economic issues dominated bilateral relations, but the issue of the imbalance in manufactured goods trade spilled over into other areas. As before, the Europeans concentrated on trade flows into the EC from Japan, but also paid more attention to shipments in the opposite direction by calling for increased access to Japan's markets. Together with the Japanese, they also expended a great deal of effort, not without success, promoting cooperative links between corporate antagonists in the hope that it would revitalize European firms, provide stable markets for Japanese exports, and reduce the possibilities for future disputes. While this is evidence of increasing sophistication in the instruments Japanese and European policymakers employ, the more traditional tools of tariffs and voluntary restraints still comprise important parts of each government's arsenal.

Trade Issues

The European Side - During 1983 the most critical issue in European eyes -- the bilateral trade imbalance -- remained solidly entrenched as an irritant. While the global recession slowed the growth of the European economies to about 1 percent in 1983, it failed to restrain Japanese exports to the EC, which increased over 5 percent. Japan's current-account balance with the EC as a whole showed a surplus of $8.5 billion for the first 10 months of

1983, almost 7 percent more than the same period in 1982 (see Table 1). Exports of manufactured goods as a percentage of total Japanese exports to the EC also grew to 97.3 percent, up from 88.4 percent a year ago. European manufactured goods also took a larger share of total EC exports to Japan, rising 3 percent to 69.9 percent in 1983.

An integral part of this pattern, and another point of contention, is the emphasis by Japanese exporters on sales of a particular product in a country. The intense competition by Japanese firms for shares of the European national markets is accused of creating a flood of Japanese imports that adversely affects domestic producers. In 1983, exports of Japanese video cassette recorders (VCRs) to the Netherlands rose 32 percent, deliveries of Japanese autos to France rose 40 percent, and exports of Japanese quartz watches to Ireland ballooned 766 percent in the first half of the year. The Japanese hold significant positions in many products, including cars (32 percent of Norway's market), video equipment (80 percent of the entire EC market) and bearings (16.5 percent of West Germany's total). While exports of some products - notably automobiles - are already under bilateral restrictions, magnitudes of this sort have prompted the EC to seek community-wide voluntary export restraints from Japan for the first time, and in February 1983, an agreement was concluded covering several sensitive products including machine tools, watches and video cassette recorders (see JEI Report 9B, March 11, 1983).

This agreement set quantitative limits only on exports of Japanese VCRs, color TV sets and components, but placed 9 other items in a closely monitored group. While the accord did moderate the growth of color TV exports to the EC to between 3 percent and 6 percent, and actually reduced the level of VCR exports 10 percent from 1982, as shown in Table 2, it did not have much effect on watches (up 120 percent from 1982), forklifts (up 25 percent) or cars (up 23 percent). Despite these problems, the EC and Japan agreed in November of 1983 to raise the numerical limits on VCR exports for 1984 to 5.05 million units, an increase of 11 percent, but leave unchanged provisions covering the other items.

Another rough spot concerns Japanese exports of digital audio disk (DAD) equipment, which hold a majority share of the market in the Community. The Europeans, not wishing to repeat their experience with video cassette recorders, attempted to pre-empt Japanese dominance of the market by doubling the tariff on DAD imports in October 1983. The Japanese immediately cried foul and threatened to complain to the mediation council of the General Agreement on Tariffs and Trade (GATT). The issue is particularly sensitive because the Europeans are breaking with international norms by imposing a specific restriction on a product which has not been marketed for more than three years. Ironically, DAD technology was developed by Japan's Sony Corp. and the Netherland's N.V. Philips, and the action was seen as a blow to similar arrangements in the future. The Japanese view this as pre-emptive protectionism which would seriously threaten free trade if allowed to go unchallenged (see JEI Report 47B, December 16, 1983).

The Japanese Side - Parallelling the focus on trade from Japan to the EC, shipments in the opposite direction also received a great deal of attention. The issue that generated the loudest complaints was the low level of manufactured exports to Japan. EC officials point to a Japanese ratio of manufactured imports to total imports that has remained stuck at around 20 percent for the last 10 years. By comparison, the ratio for the EC has been hovering around 40 percent during the same period (see Table 3). The Europeans claim that this low figure is evidence of the "closed" nature of the Japanese economy and have pressed for an active import promotion campaign by the Japanese as well as the liberalization of Japanese tariff and nontariff barriers. These complaints were formalized by a petition to the GATT under Article 23 which requires bilateral consultations as the first stage in the mediation process. After a few fruitless diplomatic skirmishes, the EC ministers moved to the second stage of the process, asking for GATT arbitration in spite of the verbal promise by EC Vice-Chairman Etienne Davignon to Foreign Minister Shintaro Abe that it would be handled through direct bilateral negotiations. This call for multilateral consultations brought loud protests from the Japanese government accompanied by countercharges against the European system of tariffs specifically aimed at trade with Japan. Faced with the prospect of an attack on its tariff system, the EC decided not to pursue the GATT process.

Another flap occurred over the Japanese decision to purchase the American Boeing 767 jetliner over the European Airbus Industrie's A300 aircraft. When the decision was announced, the French -- who thought they had a verbal commitment from Japan on the Airbus -- were outraged. The subsequent claims and counterclaims in the French and Japanese press did nothing to enhance the atmosphere.

The Japanese have not sat idly by during this period. The general market liberalization measures over the past year clearly affect the Europeans as well as the Americans. Immediately on the heels of their market liberalization package in January of 1983, Japan announced a second package that accelerated a number of tariff reductions and strengthened administrative procedures to facilitate trade, including more lenient import inspection procedures. While the package was well received in Europe, the Japanese were forced to agree to the voluntary restraints announced in February. The economic stimulus package in October 1983 was also hoped by the Japanese to pull in more imports. They continued unilateral reductions even during a recession which speaks clearly of their desire to maintain good relations with their trading partners. Japanese investors have also stepped up their activities in Europe and several commitments to open new TV and VCR plants on the continent have been made. While some European firms see this as an end run around the wall of tariffs and quotas that exist, deals such as that between Honda and British Leyland have been highly successful and mutually beneficial.

Despite intensive use of trade-restrictive tools, the Europeans and Japanese continue to emphasize that cooperation is the real key to future relations. The principle is enshrined in policy statements and is reiterated, almost ritualistically, at each high-level meeting. Jaundiced observers note that the statements constitute an empty litany and point out that few, if any, cooperative agreements exist as a result of government encouragement. Indeed, most cooperative link-ups have been negotiated at the private business level and owe little to government support. Joint ventures such as the Sony-Philips DAD project illustrate how mutually advantageous deals can be struck even in the area of high technology. The Acclaim car, produced by Honda and British Leyland, won critical praise for its design and construction while racking up strong sales. Other joint ventures are appearing with Italian auto firms. Trade-related cooperation is beginning to make a definite impact in the EC economic arena.

Unfortunately, beyond purely trade-related ventures, cooperation has yet to really materialize. In science/technology and development assistance, the two fields where cooperation could yield substantial benefits, only very preliminary contacts have been made. Again, private organizations are taking the lead. For example, the Japan Chemical Industry Association and the European Council of Chemical Manufacturing Federations have called for cooperation in the fields of environmental problems and technology transfers. Development assistance to Southeast Asia remains one area of mutual interest and consultations to coordinate aid occur on a regular basis. Thus, the cooperative spirit will eventually spill over from trade to other areas.

A Trilateral Comparison

Trade - One concept that guides the Common Market ministers in discussions with Japan is the trilateral EC-US-Japan relationship. The ministers feel that to operate as a firm foundation for free international trade, each leg of the trilateral relationship must be equally strong. In this context, they fear that the weak link is the EC-Japan partnership. This conclusion is, in fact, supported by the statistics. Nor is the tie likely to ever fulfill European hopes because their trilateral concept is too optimistic. Japan-EC relations differ from Japan-U.S. relations in significant respects for historical, institutional and psychological reasons.

In terms of the sheer magnitude of trade, EC-Japan trade has consistently fallen far short of Japan-U.S. and EC-U.S. trade. From the trade data summarized in Table 5, it is clear that EC-Japan trade is less than half of either EC-U.S. or U.S-Japan trade. EC-Japan trade is also unbalanced, with the ratio of surplus/deficit to total trade at a consistently and significantly higher level. This problem is also expressed by the low export-import ratio for EC-Japan trade in comparison with the other two. While hitting an all-time low of 34.3 percent in 1980, it improved in 1984, rising to 43.9 percent. The EC is a more important trading partner for Japan, accounting for 13 percent of Japan's total trade, than vice versa, with Japan constituting only 3 percent of the EC's total trade. This difference is responsible, in part, for the psychological environment that surrounds the relationship.

Besides lagging behind the United States in absolute quantities traded, the Common Market has a more shallow economic relationship with Japan. There are only half as many European firms with investments in Japan as U.S. firms, and almost half of these companies are completely held by the parent firm - eliminating the close contact with a Japanese partner that the majority of American firms consider desirable. In return, Japan has invested much more in the United States -- almost $14 billion by the first quarter of 1983 -- than it has in Europe (just over $3 billion at the end of the same period). Though more difficult to quantify, the web of commercial relationships between Japan and America is broader and finer than that linking Japan and the EC. Moreover, Japanese trading companies are much more active in the United States than they are in Europe, both in terms of volume and personnel. Finally, while American trade with the Asian-Pacific region in now larger than its trade with Europe, the EC's trade is focused increasingly on Africa and South Asia.

Security - Economic links are not the only component of a relationship. Political, social and security policies are also a factor. Here, too, the EC finds itself falling short of the U.S.-Japan relationship. The U.S.-Japan mutual defense treaty, which both parties regard as the bulwark of stability in the region, has no EC-Japan counterpart. Although a security relationship of sorts exists through the loose alliance of "Western" nations, it is not at all on a par with the American partnerhsip. At the 1983 Williamsburg summit, Prime Minister Nakasone took great pains to establish a link between security in Western Europe and security in Northeast Asia by focusing on the common threat of Soviet SS-20 missile deployments. But a relationship built purely on summit statements without treaty commitments cannot have any real force in the international arena. Both sides now face the challenge of putting meat on the bones of their lofty plans. Geographic separation poses a near-insurmountable obstacle to the realization of any real security relationship in the immediate future, not to mention the political problems.

Institutional, Psychological Factors - Institutional differences also account for inequality of relations among the trilateral partners, although this may change in 1984. Until the February 1983 trade agreement was concluded, the EC was virtually unable to present Japan with a unified position on any issue. Individual governments pursued their separate interests and presented a confusing and contradictory set of signals. The Italians, for example, vehemently opposed the agreement between Honda and British Leyland and even pursued the matter in EC Council meetings. As long as the EC Council was unable to agree on a unanimous position on issues such as technology transfers, foreign buy-outs and industrial policy, individual companies and governments were free to act in their own interests. While the Japanese may have been guilty of playing one EC member off against another in some cases, the Europeans certainly made it an easy task.

The U.S. government, on the other hand, presents a relatively united front to the Japanese. While Congress does wander off in its own direction, the administration has done a good job of providing a consistent position on the issues. Despite some bureaucratic infighting, the discipline that the Reagan Cabinet has brought to the conduct of foreign trade policy has made it at once easier and harder for the Japanese -- easier in that goals are clear, but harder to find an acceptable compromise. Perhaps taking a page from President Reagan's book, the Europeans have now closed ranks on trade issues. Given the recent success of the EC maneuvers, members may indeed begin to act in concert on other issues as well. While national interests will continue to limit the scope of consensus, the trend toward more unity among EC members is likely to accelerate.

Psychological factors have an important yet elusive influence on bilateral relations, and again, a comparison is useful. The most serious psychological factor is the Japanese perception that the Europeans consider them second-class citizens. There have been occasions when Japanese officials were not invited to important meetings even though they were present, and they often feel that the Europeans only give lip service to the process of negotiation. For their part, the Europeans say they find the Japanese obtuse and secretive, making negotiations trying at best. The more open style of Prime Minister Nakasone has helped relieve this perception, as has the EC's new economic cohesion.

On the whole, the Europeans paid no attention to Japan's economic position until it suddenly burst onto the scene in the 1970s as a potent international competitor. In 1965, trade with the EC was only 5 percent of Japan's total trade and amounted to less than one-fifth of Japan's trade with the United States. The subsequent growth of trade with Europe between 1965 and 1973 was explosive, doubling in the first five years, doubling again in the next two years, and doubling again the next year (1972-1973). While the same patternwas followed in the United States, Americans were more familiar with Japan because of the postwar occupation. Additionally, the United States had been absorbing Japanese exports since the mid-1950s. Japanese goods, especially high-visibility items such as cameras and electric appliances, were well entrenched in American society -- in contrast to Europe where they were practically unknown. As a result, Japan's export surge was much more traumatic for Europeans than for Americans. The suddenness and weight of the Japanese presence left both the Europeans and Japanese struggling to adjust to each other -- along with other pressures in the 1970s. Only recently have the two begun to deal with each other in a more mature fashion, reflecting internal political developments in each country.

Hurdles Ahead

The last year presented a mixed bag of successes and setbacks, but generally set a positive tone. The February agreement on VCRs and other items has a life of three years which will lend some stability to trade in these goods. The Europeans have shelved their plans for GATT arbitration, and while the issue may be reopened at any time, it is not a likely occurrence. Even after the EC tariff decision on DAD equipment, Japan was willing to conclude an agreement creating a wisemen's council to study scientific and technical cooperation. Generally, decision makers on both sides showed new sophistication and commitment in 1983 to building better relations.

Make no mistake, there are some very dark clouds that could make 1984 a complete washout. Foremost among these is the DAD equipment issue. The European action is very disquieting to the Japanese because it smacks of industrial policy through trade restraint. By attempting to protect a brand new market, the EC is clearly trying to foster its own electronics industry at the expense of the Japanese. The fact that it concerns a high-technology product is even more disturbing because if the practice catches on in other countries, the Japanese drive to capitalize on knowledge-intensive products is squarely threatened. The Japanese plan to take the EC to the GATT unless the EC accepts a compromise - of which there is little indication. It is ironic that this potentially heated dispute centers on a product of Euro-Japanese cooperation, and the Japanese are making it clear that commercial links may suffer in the future.

While tie-ups in high-technology areas may be on hold, the trickle of agreements between car makers also threatens to become a flood. There are rumors that several ailing European auto manufacturers are considering joint engineering and production agreements with Japanese competitors based on the model of the highly successful Honda-British Leyland arrangement. Several Italian, and even some French firms, are considering deals that will allow them to learn Japanese methods while producing competitive products. Japanese firms are anxious to establish links as a means of increasing market access and gaining a leg up on other Japanese competitors. Whether the EC tries to regulate this new scheme or acquiesces is now being debated, with the stronger European auto makers dead set against it.

Another possible flash point is the continued rapid growth in exports of several products that are included in the February voluntary export restraint agreement. Exports of cars, quartz watches, bicycles and machine tools have all increased between 20 percent and 120 percent during 1983 and the Europeans are disappointed over implementation of the agreement. Since the levels of exports for 1984 were determined last October, individual EC members may begin to petition the EC Commission for waivers permitting them to take restrictive action against particular Japanese exports should they continue to grow at unacceptable rates. Nothing is clearer than the imperfect ability of the Japanese government to control the performance of the private sector -- putting to rest further accusations about Japan Inc.

A very important field of products has yet to receive much attention, but certainly promises to hold center stage in the coming decade: telecommunications and computer equipment. As Japanese firms compete for primacy at home in the rapidly evolving information marketplace, it will position them to be fierce competitors abroad. Europeans are well aware of this and are mulling plans to subject European firms to the same pressures, hoping to ready effective resistance to the Japanese challenge. Cooperation between private firms is one option as the Japanese become net exporters of technology, but a lapse back into protectionism is a very strong possibility. Both sides will be preparing policies and sharpening arguments in anticipation of a struggle over this vital area.

Outlook

The art of problem-solving made great strides in 1983 and a strategy for 1984 is expected to build on this. While high-level biannual consultations have been institutionalized for several years, they have recently begun to exert more than a ceremonial role. Foreign Minister Shintaro Abe's visit to Europe in early 1983 was an important gesture and another visit by a high-ranking official is quite possible. The London summit later this year will present another opportunity to forge closer relations with European leaders and Prime Minister Nakasone may try to duplicate his "Ron and Yasu" success with other heads of state.

Europeans have tended to be heavy-handed, as with the DAD tariff doubling for example, but it has, more often then not, proven useless - witness the GATT Article 23 debacle. Their future actions depend, at least in part, on how America handles its relations with Japan. One could almost say the Europeans rode America's coattails during 1983 to obtain agreements with the Japanese. Both the February VCR agreement and negotiations setting 1984's levels occurred on the heels of American-Japanese accords on voluntary restrictions or market liberalization. Perhaps Tokyo felt more pressure to reach an agreement with the EC once agreement with the United States had been reached. Whether this fortuitous timing can be duplicated this year is doubtful, although January and February are busy months with meetings between all sides in Japan.

Trade will continue to dominate the EC's goals vis-a-vis relations with Japan in 1984, but more focus will center on the liberalization of Japan's financial system and the internationalization of the yen -- paralleling American plans. While the yen managed to hold its own against the rising dollar in 1983, all of the major European currencies lost ground to both the dollar and the yen (see Table 4). This will tend to take the competitive edge off many Japanese exports and may help European exports to Japan as the Common Market's economy begins to revive in 1984. The EC has already sold three bond issues in the Japanese market worth Y20 billion each ($84 million at current exchange rates). These have been well received and more issues will likely be floated this year. Nonetheless, the Europeans are calling for increased use of the yen in international transactions and more foreign participation in Japanese financial markets. Finally, it is interesting to note that while 1983 saw more anti-dumping complaints lodged with the EC by European industry (over 60 filings), less than ten concerned Japan and of these, only two led to the definitive imposition of countervailing duties.

The post-election political situation in Japan will require a new assessment by the Europeans of Prime Minister Nakasone's ability to negotiate seriously. Indeed, with the delicate balance of power in the Diet and the current focus on the FY 1984 budget, the Japanese may be unable and unwilling to tackle politically dangerous foreign economic problems. On the other hand, an expanding economy in 1984 will relieve some of the pressure on the government to take a tough stance on import policy. With the strong prospect that Mr. Nakasone will call new elections sometime this year, the Japanese government may try to delay making any significant moves. If, however, the coalition government proves to be solid, action on the foreign front may proceed as soon as the budget for the new fiscal year is passed. There are a great many "ifs" to consider when sizing up the current Japanese Cabinet and the next few months should tell whether it will still be around this fall.

The government is not the only important actor in Japan. One must also consider the business sector, particularly financial institutions, in judging the capacity for changes in the Japanese economy. While most of these welcome the proposed liberalization of capital markets, financial experts are unanimous in saying that any plan must be implemented gradually to allow for adjustment. Industry also welcomes the greater freedom that an internationalized yen would bring, but fears possible disruption in the markets. Significant obstacles to rapid reform of Japan's capital markets exist and will not easily be overcome.

Japan-EC relations, while continuing to develop and broaden, are likely to wind up and down in 1984. The potential for widely diverging interests exists if the European economies cannot pull out of the doldrums and put their own affairs in order. Starting out on the right foot, as Japan and the EC have done, is no guarantee that the year will have a happy ending.

For further information contact Jon Choy.

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Table 1: Japan's Trade with the EC

(in billions of dollars)

Year	Exports (f.o.b.)	Percentage Change	Imports (f.o.b.)	Percentage Change	Balance	Export/ Import Ratio
1973	$ 4.872	31.9%	$ 3.193	61.2%	$ 1.679	153%
1974	6.465	32.7	4.020	25.9	2.445	161
1975	6.012	-7.0	3.411	-15.1	2.601	176
1976	7.977	32.7	3.651	7.0	4.326	218
1977	9.831	23.2	4.233	15.9	5.598	232
1978	11.996	22.0	6.106	44.2	5.890	196
1979	13.44	12.1	7.656	25.4	5.788	176
1980	17.195	27.9	7.878	2.9	9.317	218
1981	18.894	9.9	8.552	8.6	10.341	221
1982	17.064	-9.7	7.560	-11.6	9.504	226
1983*	15.152	5.0	6.645	2.7	8.507	228

*Figures are for January-October 1983; Percent changes calculated over same period 1982.

Source: Japan Tariff Association, *Summary Report: Trade of Japan*

Table 2: Performance of Japanese Exports to the EC under VER January-October 1983

(percent change)

Cars	24.5%
Color TVs	3.3
TV Tubes	5.7
Machine Tools	2.1
Forklifts	26.3
Tape Cassette Decks	17.9
Quartz Watches	123.6
Motorcycles	-16.4
Video Cassette Recorders	-11.8

Source: Ministry of Finance, *Japan Exports and Imports*.

Table 3: Manufactured Goods as a Percentage of Total Imports*

Year	Japan	EC
1955	10%	22%
1960	22	29
1965	23	33
1970	30	44
1971	29	43
1972	30	45
1973	30	44
1974	23	38
1975	20	39
1976	20	40
1977	20	43
1978	25	46
1979	24	46
1980	22	44
1981	22	39
1982	23	40
1983	25**	58***

*Manufactured goods defined as SITC categories 5 - 8.
**Figures for first ten months 1983.
***Figures for first three months 1983.

Table 4: Exchange-Rate Movements Against the Yen

(percentage change from previous month)

	Pound Sterling	Deutsche Mark	French Franc
1983			
January	-6.76%	-2.71%	-2.67%
February	-1.23	-0.18	-0.24
March	-1.93	1.52	-1.12
April	3.28	-1.40	-4.49
May	0.11	-2.43	-2.77
June	0.79	-0.93	-0.86
July	-1.25	-1.42	-1.37
August	-0.15	-1.71	-1.76
September	-0.87	-0.46	-0.89
October	-4.10	-1.53	-2.64
November	-0.43	-2.44	-1.93
December	-2.55	-2.79	-3.05

(percentage change December to December)

1977	-7.56%	-7.82%	-13.55%
1978	-13.72	-6.46	-8.50
1979	33.55	29.76	27.74
1980	-8.58	-25.95	-24.92
1981	-13.26	-4.74	-13.84
1982	-9.76	-0.93	-9.69
1983	-11.08	-13.98	-19.96

Sources: Bank of Japan and New York Exchange Market Quotations.

Table 5: EC-Japan-U.S. Trade -- Volume and Shares

(millions of dollars)

Trade Of:	Total Exports	Export Trade as a Percentage of Total Exports		Total Imports	Import Trade as a Percentage of Total Imports	
EC		Japan	US		Japan	US
1980	$307,822	2.55%	11.99%	$375,723	4.43%	14.23%
1981	297,711	2.87	12.26	350,340	5.39	13.90
1982	281,349	2.69	13.57	315,707	5.41	15.17
1983*	128,278	3.06	16.46	142,794	6.25	15.70
Japan		EC	US		EC	US
1980	$129,807	12.83%	24.16%	$140,528	5.58%	17.37%
1981	152,030	12.43	25.40	143,290	5.63	17.65
1982	138,831	12.29	26.17	131,931	5.39	18.33
1983**	119,296	12.70	28.62	102,908	6.46	19.32
US		Japan	EC		Japan	EC
1980	$223,966	9.29%	23.86%	$249,308	12.52%	14.48%
1981	236,254	9.23	21.74	264,143	14.23	15.68
1982	211,217	9.80	22.21	247,606	15.22	17.10
1983*	99,635	9.97	22.50	122,657	15.58	17.05

*Figures cover first six months 1983.
**Figures cover first ten months 1983.

Sources: Ministry of Finance, Eurostat, U.S. Department of Commerce.

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JEI

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Japan Tackling Trade Problems with the United States

After a lull of several months during which attention in Japan was absorbed by the lower house elections, bilateral trade issues are once again coming to the fore. Faced with renewed pressure from the United States, Prime Minister Yasuhiro Nakasone is pressing his government for another package of unilateral concessions by the spring.

Now that the elections and the reshuffling of political posts has been completed, the Japanese government must confront several important developments. The agreement on beef and citrus quotas expires at the end of March, as does the extension of the agreement on Nippon Telegraph and Telephone (NTT) procurement practices. In June, the industrial nation summit will take place, and will be followed by the U.S. presidential election campaign, which carries the threat of protectionist actions directed against Japan. For all the Alcan case apparently upheld that principal. Montreal-based Alcan, not its American subsidiary, filed the suit.

The court's decision still leaves open the possibility of legal challenges by firms based in the United States, including foreign-owned subsidiaries. This legal avenue remains unchanged for companies with the will and patience to attack unitary taxation. At least two Japanese-owned subsidiaries operating in California are preparing such suits (see JEI Reports 45B, 12/2/83, and 47B, 12/16/83, for additional background information).

The Supreme Court decision will not affect deliberations by a U.S. task force studying the tax. The task force met behind closed doors from January 10 to 12 to complete final recommendations for resolving unitary tax disputes. The group's self-imposed deadline is February 24, the next meeting of the working group, after which the suggestions will be forwarded to the president for action at the executive level.

In the meantime, a delegation from Keidanren, Japan's largest business organization, is set to tour 13 American states to lobby against the unitary tax. The delegation, which will be led by Sony Corp. chairman Akio Morita, was formed after it became evident that the U.S. government would not seek legislation in Congress to repeal the unitary tax method. It is doubtful that the mission will influence the U.S. task force or states which currently use the unitary tax system, although it could be an indication of greater willingness on the part of Japanese businesses to lobby directly and aggressively in the United States on issues affecting their own interests.

Michael Chinworth

EPA Sees 4.1 Percent GNP Growth in FY 1984

Japan's Economic Planning Agency (EPA) will propose to the Nakasone Cabinet that the country strive for 4.1 percent real growth in the 1984 fiscal year beginning April 1. If adopted, it will be the first time in five years that a real growth rate of over 4 percent is expected. In nominal terms, GNP growth of 5.9 percent is forecast, along with a rise in the consumer price index of 2.8 percent and an increase in wholesale prices of 1.0 percent. Domestic demand is expected to serve as the engine pulling the economy - accounting for 3.6 percentage points of total growth with external demand making up the other 0.5 percentage points. A current-account balance of $23 billion is predicted for FY 1984, the same level as expected for FY 1983. While no target is set for a yen-dollar exchange rate, the outlook is predicated on an exchange rate in the Y220 - Y225 per dollar range.

A number of private forecasts for FY 1984 are summarized in the following table as well as the official figures. Most of these are based on the following assumptions: the Bank of Japan's discount rate will remain at 5.0 percent throughout 1984; planned income and residential tax cuts totaling Y1.2 trillion will be implemented in full; and Y1 trillion in revenues will be raised through an increase in indirect taxes. As can be seen, there is a fairly wide range in each category with the banks on the low end and the research institutions on the high end, sandwiching the securities companies and the government in between. The primary factor leading to differences among

FY 1984 Forecasts for the Japanese Economy

(percentage change)

	Real GNP Growth	Real Private Consumpt.	Real Capital Invest.	Exports	Imports	Current Account Surplus*	Yen/$ Exchange Rate
Japan Economic Research Center	4.9%	3.9%	6.9%	12.4%	7.2%	$35.1	Y221.25
Mitsubishi Research Institute	4.7	4.6	6.3	13.8	5.2	35.4	226.0
Research Institute of National Economy	4.8	3.8	7.2	10.5	8.0	30.51	235.25
Fuji Bank	4.0	4.1	4.5	11.0	12.5	25.9	225.0
Mitsubishi Bank	4.5	4.2	5.4	7.6	5.2	19.4	247.0
Sumitomo Bank	3.8	3.3	5.6	6.2	3.5	29.0	230.0
Taiyo Kobe Bank	4.1	3.8	4.0	8.5	6.9	26.8	222.5
Hokkaido Takushoku Bank	3.6	4.4	3.2	5.9	6.4	24.42	227.5
Nomura Research Insitute	4.3	4.2	5.6	8.9	11.2	21.0	225.0
Nikko Research Center	4.2	4.4	5.7	10.8	12.8	24.0	225.0
Daiwa Securities Research Institute	4.8	4.6	4.4	9.1	11.2	24.285	222.13
Yamaichi Research Institute of Securities and Economics	4.4	4.3	6.4	13.6	12.7	30.32	225.0
Kangyo Kakumaru Research Institute	4.6	4.3	6.6	8.0	8.1	22.2	224.0
Asahi Mutual Life Insurance	4.8	3.9	5.2	12.8	14.2	27.9	221.0
Economic Planning Agency (EPA)	4.1	4.0	n.a.	n.a.	n.a.	23.0	n.a.

*in billions of dollars.

forecasters is the variance in the growth of personal expenditure, which constitutes 60 percent of Japan's GNP. In the past, this category has proved to be highly volatile and remains a hotly debated topic in Japan.

On the basis of an improved world economy in 1984, especially in the United States, the government's goals should be within reach. As the U.S. recovery picked up steam, it pulled the Japanese economy along not only by importing more Japanese products, but also by stimulating Japan's Asian trading partners, including Taiwan, South Korea and the ASEAN nations. While external demand drove the economy to 6 percent-plus annualized growth in the third quarter of 1983 (see JEIR 1B, January 6, 1984), domestic demand also began to pick up. Sustaining this trend, however, will be the crux of the government's effort to meet its 1984 goals, and there are some encouraging signs. Figures for the third quarter of 1983 point to increasing investment by small and medium-sized Japanese firms which make up the vast majority of Japanese businesses. Profit margins for major corporations have also been improving. This expansion should help to increase employment in 1984, raising personal consumption. Another positive sign is the increase in overtime pay as output rises. While prospects for the 1984 spring wage negotiations are moderate, with most observers predicting an average 5 percent increase, it will still be an improvement over 1983's 4.4 percent increase and will support the increase in employment. Finally, the positive psychological effects of a robust U.S. and Japanese recovery may enhance both investors' and consumers' attitudes.

On the other hand, there are numerous pitfalls that lie in the government's path, many of which are beyond its control. The most frequently mentioned possibility is a worsening of trade frictions over Japan's continued trade surpluses with the United States and the European Community. Another possibility is an oil crisis linked to the Iran-Iraq war. Given the high budget deficits, government spending is not likely to increase and may even drop if the government is not able to recover revenue lost through the income-tax cuts.

The EPA proposal will be presented on January 20 to the Nakasone Cabinet for endorsement as part of the FY 1984 budget process now in progress.

Jon Choy

R&D Spending Continues to Rise in Japan

According to figures recently released by the Prime Minister's Office, a record Y6,528.7 billion ($28.3 billion at current exchange rates) was spent by Japan's 15,400 research institutions in fiscal 1982. While this increase of 9.1 percent (Y546.3 billion) over FY 1981's total research and development (R&D) expenditures fits the pattern of consistently rising R&D outlays, it is the first time since 1975 that the increase has fallen below 10 percent and represents the smallest gain in over 15 years. As a percentage of gross national product, the FY 1982 increase raised the R&D figure only 0.08 percentage points to 2.44 percent. However, the Japanese continue to close the gap with West Germany, which spent 2.66 percent of FY 1981 GNP on R&D, and the United States, where the FY 1982 figure was 2.53 percent. Japan now ranks third in the world in terms of total R&D expenditures - behind the U.S. ($84 billion in FY 1982) and the Soviet Union ($31.7 billion in 1980).

STATISTICAL SUPPLEMENT

Trade and Payments Data

(in millions of dollars unless otherwise indicated)

	1981	1982	January-November 1982	January-November 1983	September 1983	October 1983	November 1983
Japan's Balance of Payments							
Trade Balance	$ 19,967	$ 18,079	$ 15,567	$ 27,672*	$ 3,369*	$ 3,094*	$ 2,115*
Exports (f.o.b.)	149,522	137,663	125,218	130,566*	12,629*	12,771*	12,174*
Imports (f.o.b.)	129,555	119,584	109,651	102,894*	9,260*	9,677*	10,059*
Current Account Balance	4,770	6,850	5,006	17,711*	2,688*	2,281*	868*
Long-Term Capital (net)	-9,672	-14,969	-14,672	-16,135*	-2,409*	-2,379*	-1,412*
Overall Balance	-2,144	-4,971	-5,207	4,140	318	-172	1,078
International Reserves (end of period)	28,403	23,262	22,976	24,697	24,641	24,665	24,697
Japan's Customs Clearance Trade							
Trade Balance	8,741	6,900	5,283	17,592*	2,388	2,021	1,204*
Exports (f.o.b.)	152,030	138,831	126,289	131,696*	12,791	12,835	12,400*
Cars	18,445	18,015	16,470	17,725*	1,673	1,708	1,613*
Steel	16,669	15,645	14,411	11,510*	1,150	1,111	1,077*
Imports (c.i.f.)	143,290	131,931	121,006	114,104*	10,403	10,814	11,196*
Crude Oil	53,343	46,274	42,218	35,777*	3,187	3,072	3,536*
Japan-U.S. Trade							
Trade Balance	13,312	12,151	11,216	15,943*	2,079	1,976	1,950*
Exports (f.o.b.)	38,609	36,330	33,335	38,164*	4,085	4,043	4,020*
Imports (c.i.f.)	25,297	24,179	22,118	22,221*	2,006	2,067	2,069*
Yen-Dollar Exchange Rate							
Tokyo Spot Market (end of period)	Y219.90	Y235.00	---	---	Y236.10	Y233.60	Y234.00
U.S.-Japan Trade							
Trade Balance	-15,789	-16,778	-16,095	-17,568	-1,027	-2,067	-1,931
Exports (f.a.s.)	21,823	20,966	19,163	19,809	1,948	2,005	2,095
Industrial Supplies	8,983	9,173	8,428	7,859	677	795	797
Food and Feed	5,896	4,971	4,582	5,118	564	515	535
Capital Goods	4,767	4,434	4,042	4,549	404	515	555
Consumer Goods	1,318	1,356	1,249	1,282	130	474	111
Imports (Customs)	37,612	37,744	35,258	37,376	2,976	121	4,025
Automotive Products	12,950	12,890	11,980	13,476	949	4,071	1,399
Industrial Supplies	7,179	6,795	6,451	4,898	425	1,380	514
Consumer Goods	8,340	7,842	7,321	7,528	638	515	837
Capital Goods	8,589	9,530	8,861	10,851	908	882	1,219

*Preliminary

STATISTICAL SUPPLEMENT

Japanese Economic Indicators

(percentage change from year-earlier period unless otherwise indicated)

	1981	1982	January-October 1982	January-October 1983	August 1983	September 1983	October 1983
Discount Rate (end of period)	5.5%	5.5%	5.5%	5.0%	5.5%	5.5%	5.0%
Outstanding Money Supply	8.9%	9.2%	9.5%	7.4%	6.9%	7.2%	7.2%
Industrial Production	1.0%	0.3%	0.7%	2.4%	5.0%	6.3%	8.2%
Manufacturing Operating Rate	-4.6%	-2.9%	-2.8%	0.4%	2.4%	3.7%	7.5%
Number of Bankruptcies	-1.5%	-2.8%	-2.9%	10.7%	22.2%	24.1%	13.1%
Residential Construction Starts	-9.2%	-0.5%	-2.0%	-1.5%*	-1.7%	-3.7%	-2.0%*
Job Openings to Applications (ratio)	0.68	0.61	0.61	0.59	0.58	0.59	0.60
Nominal Wages	5.3%	4.5%	5.0%	3.7%	-1.5%	3.5%	3.3%
Labor Productivity	2.4%	1.0%	1.9%**	2.3%**	6.4%	n.a.	n.a.
Wholesale Prices	1.4%	1.8%	1.9%	-2.1%	-2.9%	-3.2%	-4.0%
Consumer Prices	4.9%	2.7%	2.8%	1.8%	1.2%	0.7%	1.4%
Yen-Based Export Prices	1.2%	3.9%	4.4%	-6.2%	-6.0%	-6.6%	-8.6%
Yen-Based Import Prices	1.6%	7.9%	7.5%	-7.0%	-9.5%	-10.6%	-15.0%

*Preliminary
**Through August of each year only.

For Japan's most recent GNP figures, see JEI Report No. 1B, January 6, 1984.

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Administration's Blitz Hits Tokyo

The administration has been rather quiet about outstanding bilateral economic issues during the past two months as Japan prepared for the Diet election and then reshuffled political posts. Judging that the political scene in Tokyo has now returned to normal and that the time is ripe to press the Japanese government on concessions (see JEI Report 3B, January 20, 1984), a veritable blitz of U.S. officials has descended upon the Japanese government.

The list of issues on which the United States is now pressing Japan covers some long-standing problems and some new ones. Included are beef and citrus quotas, procurement policies by Nippon Telegraph and Telephone (NTT), communications satellites, value-added networks (VAN), computer software, policies toward structurally depressed industries, liberalization of capital markets, and a list of tariff-reduction requests. Following is a brief recapitulation of the demands on each item:

lumber products, but others - such as plywood and certain chemicals - were not. Much the same can be said in regard to requests from the EC. Cuts will be made in duties on perfume and handkerchiefs, but not on specific electronic goods or agricultural products as the Europeans had asked.

While both American and EC officials welcomed the newest measures, they criticized it as being insufficient and ineffective in counteracting the strong trade flow trends that favor Japan. They also point out that the Japanese are not being as altruistic as they claim. The Japanese elimination of tariffs on semiconductors is contingent on the United States and the EC doing the same, they note, a situation that could be of most benefit to Japan.

Japan counters that together with its previous market opening measures, the new series of tariff reductions represents the most significant steps any country has taken unilaterally in terms of encouraging free trade. Japan now has the lowest average tariff rates of any Western industrialized country, yet its trading partners are calling for structural changes in the Japanese economy to - as they see it - put everyone on equal ground. Many observers think that even if Japan's economy were opened to America's satisfaction, the trade balance would still be heavily in Japan's favor due to basic economic factors.

The tariff cut package must be adopted by the Diet before it can be implemented. It is expected to be submitted along with the budget when the Diet reconvenes on February 6.

Jon Choy

FY 1984 Car Export Quota Allocated

Deciding how many cars individual manufacturers can ship to the United States has been a yearly headache for the Ministry of International Trade and Industry (MITI) since Japan's export-restraint program went into effect in FY 1981. For the past three years, MITI has essentially divided the annual 1,680,000-unit shipment ceiling on the basis of each maker's 1979-80 share of the American market. While no one formula is likely to satisfy all companies, this system has drawn the fire of Japan's smaller exporters. Toyo Kogyo Co., Ltd. (Mazda), Fuji Heavy Industries, Ltd. (Subaru) and Mitsubishi Motors Corp. claim it discriminates against them and bolsters the already strong U.S. sales position of Toyota Motor Corp., Nissan Motor Co., Ltd. and Honda Motor Co., Ltd. Two other second-tier makers, Isuzu Motors, Ltd. and Suzuki Motor Co., Ltd., have also been pushing for a new allocation system so that they can implement their plans to become major suppliers to General Motors Corp.

This year MITI has to grapple with an additional problem: how to allocate the extra 170,000 cars Japanese companies will be allowed to export to the United States during the April 1984-March 1985 period (see JEI Report No. 43B, November 11, 1983). According to the Nihon Keizai Shimbun, the ministry has made at least a preliminary decision on FY 1984 allocations. GM's two affiliates will get just under 30 percent of the cars being added to the overall ceiling, while Japan's other smaller exporters will be given larger percentage increases than the top shippers. The shipment caps for Toyo Kogyo, Mitsubishi Motors and Fuji Heavy Industries will be expanded by margins ranging from 8.3 percent to 8.9 percent, while Toyota, Nissan and Honda will receive an across-the-board increase of 6.8 percent.

Exporter	FY 1983 Quota	Tentative FY 1984 Quota	U.S. Retail Sales 1982	U.S. Retail Sales 1983
Toyota Motor Corp.	516,659	551,800	530,246	555,766
Nissan Motor Co., Ltd.	456,030	487,100	470,246	521,902
Honda Motor Co., Ltd.	348,631	372,400	365,865	350,670
Toyo Kogyo Co., Ltd.	159,282	173,500	163,638	173,388
Mitsubishi Motors Corp.*	112,584	122,400	106,177	132,021
Fuji Heavy Industries, Ltd.	70,014	75,800	150,335	156,840
Isuzu Motors, Ltd.	16,800	50,000	15,462	20,731
Suzuki Motor Co., Ltd.	0	17,000	0	0
Total	1,680,000	1,850,000	1,801,969	1,911,318

*Includes cars sold under the Chrysler nameplate.

General Motors, which had planned to import 80,000 to 100,000 mini cars a year from Suzuki starting this fall as well as up to 200,000 subcompacts a year from Isuzu, expressed disappointment with MITI's reported decision, but the company denied reports that the small Isuzu and Suzuki allocations may force it to scrap its import arrangements. Japanese exporters had no comment on their tentative FY 1984 allocations. It can be assumed, though, that they feel the MITI proposal is the best that can be expected, given the conflicting demands on the ministry.

Even with the ceiling on Japan's car exports going up to 1,750,000 in the April 1984-March 1985 period, tight U.S. supplies of top-selling Japanese models will again be the rule in the rebounding American car market. Retail sales of Japanese nameplates increased 6.1 percent in 1983 to just over 1.9 million units, but shortages put a lid on sales for many dealers. They will have a particularly hard time finding enough cars to sell in 1984's first quarter since a number of Japanese exporters shipped a disproportionately large share of their FY 1983 allocation early in the year.

Susan MacKnight

For Japan's Cabinet, a New Reporting Requirement

The Prime Minister's office has issued guidelines under which Cabinet ministers would disclose their outside income and personal assets to the public. The new requirements, which were drafted in response to public concern over government corruption, will go into effect by the end of January.

Specifically, ministers are to report the value and income from the following assets:

the Self Defense Forces (SDF), all of which seek increased spending to fulfill their respective service missions. That, JDA says, will require a fiscal 1984 allotment of Y2.94 trillion ($12.6 billion).

Prime Minister Nakasone has repeated promises to retain defense spending within 1 percent of GNP. A 5 percent increase in defense spending in fiscal 1984 would keep total defense spending between 0.98 percent and 0.99 percent, depending on salary increases to government employees. Personnel costs are the largest expense for the Self Defense Forces and significant cost-of-living increases could push up total expenses and bump them against the 1 percent level, particularly in fiscal 1985.

Mike Mansfield, the U.S. ambassador, met with Japanese government officials to urge more substantial defense spending increases. Japanese press reports suggested that Ambassador Mansfield implied that the close personal relationship between Prime Minister Nakasone and President Reagan could be jeopardized by the present defense stalemate. Mansfield called defense the most important element of U.S.-Japanese relations at this time.

American defense officials are certain to be disappointed by the budget increases, but not necessarily because of concern over spending levels as such. The Department of Defense believes that Japan's fulfillment of certain roles in the Pacific region takes precedence over budgetary figures per se. However, it is also clear that the department considers current spending levels insufficient to meet those demands. While the ultimate issue is still one of spending, the Defense Department approach emphasizes the broader policy concern of fulfilling regional security aims.

Ultimately, Prime Minister Nakasone will have to reconcile the JDA/MOF dispute. In light of the statements he has made to domestic and international audiences, it is unlikely that he will be able to increase the MOF figure significantly. Whether or not he will be able to delay further the inevitable confrontation between the 1 percent barrier and defense policy goals remains to be seen. Some observers suggest that the prime minister has left himself room to maneuver by promising to "respect" the 1 percent limit "to the greatest extent possible", implying that he will not restrict future increases as severely as he must now.

Michael Chinworth

Japan Runs Record Trade Surplus in 1983

According to figures released by the Ministry of Finance, Japan ran a record trade surplus of $20.5 billion (on a customs clearance basis) in calendar year 1983. Last year's surplus, which is nearly three times 1982's $6.9 billion level and easily tops the previous record of $18.2 billion set in 1978, resulted from a 5.8 percent increase in exports combined with a 4.1 percent drop in imports. Contributing to the $146.9 billion (f.o.b.) export performance were shipments of office equipment, which jumped 63.8 percent over 1982, electronic components, which rose 38.9 percent, and video cassette recorders, up 22.3 percent. While exports of passenger cars gained 6.4 percent on an f.o.b. basis over the year before, the volume grew only 0.7 percent with most of the increase coming from a rise in the average unit value of 8.5 percent. Clearly, the numerous restraints on exports of Japanese cars are holding down their numerical growth, and equally clearly it is the consumer who is paying the price.

The primary factor in accounting for the drop in imports to $126.5 billion (c.i.f.) from $131.9 billion in 1982 was the fall in both the price and quantity of petroleum imports which constitute about one-third of the total. Imports of crude and partially refined oil fell 13.4 percent, representing 207 million kiloliters, slightly under 1982's figure and 28.5 percent less than 1973's record 290 million kiloliters. Reflecting a drop in steel exports of 17.9 percent, imports of iron ore fell 13.3 percent and coal imports shrank 15.6 percent over 1982.

Japan registered record trade surpluses with individual trading partners as well, most notably with the United States ($18.1 billion) and the European Community ($10.4 billion). Exports to the United States totaled $42.8 billion, a 17.9 percent increase over 1982, and imports reached $24.7 billion, only 2.1 percent above the year before. Leading the export surge were shipments of office equipment (including computers), up 86.8 percent, VCRs, gaining 72.9 percent, electronic components, rising 52.3 percent, and automobiles, which recorded an increase of 12.9 percent over 1982. On the import side, the biggest gain was registered in aircraft purchases (93.4 percent), with sizable increases in corn and soybean deliveries also reported.

The pattern of exports to the EC, which totaled $18.5 billion, followed similar lines except that VCR deliveries slipped. Due to a voluntary restraint agreement reached in February 1983, VCR exports to the EC fell 16.3 percent, due to both price and quantity declines. In setting an 8.6 percent export increase, the star performers were once again: office equipment (61.9 percent), autos (26.4 percent), and electronic components (20.9 percent). Growth of imports from the EC kept close pace with exports, recording a 7.4 percent increase to $8.1 billion.

The ministry attributes the record export performance in most part to the recovery of the U.S. economy in 1983 combined with a strong dollar. The quarterly pattern of U.S. gross national product growth paralleled the quarterly pattern of Japan's trade surplus with a one quarter lag:

Quarter	U.S. GNP*	Japan's Trade Balance**
1982: IV	- 1.3%	$2,166.2
1983: I	2.6	1,737.8
II	9.7	5,718.5
III	7.9	6,911.0
IV	4.5	6,087.2

*percentage change from preceding quarter, seasonally adjusted annual rate
**in millions of dollars

While the U.S. economy is certainly not the only influence on Japan's trade balance, it is a strong factor accounting for 29.1 percent of Japan's total trade in 1983. In addition to this direct link, the American economy was sufficiently strong to stimulate Southeast Asian economies, boosting their trade with Japan. Japanese exports to the region totaled $18.5 billion, up 8.6 percent, while imports fell 6.5 percent to $28.0 billion, helping to set record trade figures for 1983. Japan's strong performance vis-a-vis the EC is a bit more puzzling given the Community's very sluggish 1983 GNP growth of around 1 percent. Three factors seem to be at work. First, the U.S. recovery spilled over into the Community's economy, getting an extra boost from the high dollar. Second, consumer spending in West Germany and Great Britain began to revive in the last quarters of 1983. And finally, 1982 was a poor year for EC-Japan trade, inflating the 1983 changes.

1984 promises to be another banner year in the history of Japanese trade. Things are getting off to a strong start with exports recording a 21.0 percent increase in December over the same month of the previous year, and imports jumping 12.5 percent in the same period. As domestic demand continues to revive in Japan, imports should gain ground on exports, which will continue to grow at a healthy pace. According to Japan's Economic Planning Agency, imports will grow 8.8 percent to $124 billion and exports will rise by 6.8 percent to $158 billion in fiscal 1984 (which begins April 1). This will still leave a huge trade surplus of $34 billion in FY 1984 as opposed to $23 billion in FY 1983. Despite this severe trade imbalance, the yen is not likely to show any drastic changes; it will certainly not depreciate, but any appreciation will be slow and drawn-out. As Japan continues to liberalize its capital markets, the trade balance will have a smaller and smaller effect on the yen's international position. With forecasts of this magnitude, however, the trade surplus will continue to be a central political issue between Japan and its trading partners.

Jon Choy

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REPORT

NO. 6A

February 10, 1984

JAPAN'S DEFENSE: PERCEPTIONS AND REALITIES

Introduction

Since the 1950s Japan has pursued a consistent but gradual rearmament program to meet its self-defense needs. Once an object of controversy -- the very existence of the forces has been viewed by many as a violation of the country's "no-war" constitution -- the Self-Defense Forces (SDF) are widely accepted by Japanese voters.

In the last two decades, controversies have surrounded Japan's defense, but not its legitimacy. The disputes center instead on the appropriate size of the SDF and its role in the Asia-Pacific region. As Japan's economic influence grows and as potential direct threats to its security increase, the country's defense capabilities must necessarily expand as well. Both in Japan and the United States, however, there is still some question as to how large they should grow.

Evolution of Defense Cooperation with the United States

Defense relations between the United States and Japan have experienced siginificant transformations since the Diet authorized the Self-Defense Forces on July 1, 1954. Although security arrangements in the 1950s might have been to the advantage of both countries, many in Japan felt that these provisions were imposed on the country without extensive consideration of national interests. As the SDF gained maturity and the United States disengaged itself from internal Japanese political affairs, the stage was set for the development of new relations between the two countries.

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Much of Japan's security policy initiatives in the immediate postwar period were directed toward reestablishing normal diplomatic relations with other nations and regaining its own independence. The American presence in Japan immediately after the war was massive, of course, due to the demands of the Occupation and the Korean War. In 1952, there were 2,800 American bases throughout the country.

A significant element of public opinion understandably resented the American presence, particularly after the Occupation ended. Many felt that the continued influence of the American military on domestic affairs was an affront to Japanese sensitivities. American personnel were steadily removed from the country and bases were closed, but the process continued well into the 1970s until reaching current levels.

Two significant developments occurred in Japanese security policy in 1967. The first was the enunciation of the three "non-nuclear principles" by Prime Minister Sato. The policies were simple and straightforward: Japan would not possess nuclear weapons, manufacture them or allow their introduction onto Japanese soil. These principles have been strongly supported by successive governments and enhanced by Japanese ratification of the nuclear test ban treaty and the U.S. "nuclear umbrella". The second policy was the decision to ban arms exports to various countries (communist countries, countries to which arms exports were prohibited by United Nations resolutions and countries involved in conflicts). The ban was extended in 1976 to virtually prohibit any type of arms exports.

Both policies have posed problems in recent years for U.S.-Japan defense cooperation. While there has been no difficulty presented by the first two of the non-nuclear principles -- indeed, the principles have been reassuring to the United States and to Asian nations which feared revived Japanese militarism -- the restriction on "introducing" nuclear arms onto Japanese soil, while at the same time retaining the U.S. nuclear umbrella, have continuously bumped into one another. Up to the present, both countries have been able to finesse the occasional embarrassments that present themselves on this point, but maintaining that American nuclear weapons are in proximity to Japan to defend the country but have never actually entered its territory is increasingly difficult. The export ban, meanwhile, had been broadened to such a point that it discouraged technology transfers from Japan to the United States, and as Japan's technological proficiency advanced, this became a source of irritation. This potential trouble spot was resolved with the initialing of a technology transfer agreement last November.

The reversion of administrative control over Okinawa to the Japanese government was in a sense the end of the occupation period in Japan's postwar history. With reversion and the subsequent withdrawal by the United States from Southeast Asia, it became clear that Japan might be expected to fill the power gap left by the reduced American presence in the Asia-Pacific region. Defense relations during this period were marked by suggestions of increased Japanese contributions to its own defense, but no clear consensus existed in either country as to the role Japan should play in the region. Indeed, sensitivity to residual fear of revived Japanese militarism was a major concern

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among key policymakers in the Nixon adminstration. However, the United States was known to favor increased Japanese spending for defense.

Several well-known developments in the Nixon period affected Japan directly and dictated reconsideration of its stance on an independent defense capability. The "Nixon shocks" in 1971 were taken without prior consultation with the Japanese government and indicated that the United States could not necessarily be depended upon to take policy actions with Japanese interests in mind. The oil crisis demonstrated Japanese economic vulnerability as well.

Relations were strained during the Carter administration as initial feelings of good will by defense officials gave way to harsh criticism of Japanese defense policies. Defense Secretary Harold Brown frequently criticized Japanese defense spending levels as insufficient and disappointing. "They bickered over each hundredth percent of the Japanese defense budget," says a Tokyo-based American observer. While the criticism may have been justified, the manner in which it was communicated to Japanese officials -- usually in the American press -- was not conducive to improved cooperation between the two countries.

With the coming of a new administration in 1981, the conduct of mutual security relations has changed dramatically. Former Secretary of State Alexander Haig set the tone when he annnounced during the presidential transition period that the United States would no longer criticize its allies in the press, just behind closed doors. Policy disagreements might continue, but preservation of relations would be emphasized.

The May 1981 joint communique between President Reagan and former Prime Minister Zenko Suzuki caused a certain amount of debate in Japan, but went a long way toward furthering bilateral cooperation. The communique, which referred to the "alliance" between the two countries and a common perception of the Soviet threat, precipitated a flurry of criticism in Japan because the choice of words connoted strong -- possibly military -- terminology. Mr. Suzuki's foreign minister sacrificed his term in office as a result, but relations advanced one step further. Prime Minister Nakasone's comments during his visit to the United States in January 1983 caused similar outcries, especially his "unsinkable aircraft carrier" reference, but he has managed to survive thus far. It is important to note that few in Japan now challenge the reality of the alliance.

Shifts in Japanese Defense Analyses

Japanese perceptions began to change during this period as the American commitment to Japan's defense came into question. If the United States was not willing to consider Japanese interests in the trade embargo and currency developments in 1971, some reasoned, why should it be concerned with defense of Japan's territory? The U.S. involvement in Vietnam was seen by many in Japan as reducing or distracting American regional defense capabilities. Furthermore, the conflict was sure to dampen American public support for any type of overseas military involvement. Then, too, the return of the Bonin Islands and Okinawa contributed to a reassessment in defense strategy. Administrative control implied Japanese responsibility for territorial defense, yet these islands are some distance from Japan's administrative center and dictated expanded defense capabilities.

After Yasuhiro Nakasone became JDA director general in January 1970, an official white paper assessing Japanese defense capabilities and policies was prepared and released. It was the first time the JDA had articulated formal positions on the role of Japan's defense forces and the military situation. Annual assessments have been published every year since 1976.

The white papers provide revealing insights into the goals of Japan's defense policies in Asia. Over the last five years, stronger perceptions of direct potential threats to the nation's security have emerged and policies have been adjusted accordingly. For example, the 1979 white paper views Soviet expansion as an effort to solidify its presence in Asia and only peripherally a response to the United States-Japan presence. The study does not suggest that the U.S.S.R. represents a direct threat to Japanese territory. The East Asian situation is viewed in terms of a triangular relationship among the People's Republic of China, the Soviet Union, "with its powerful military structure," and the United States, "which has established a solid military and political presence here." The three powers are seen as balancing one another: "A certain equilibrium is maintained."

The report looks at Soviet deployments on the northern territory islands of Etorofu and Kunashiri officially as "a part of the recent Soviet efforts to increase and modernize Soviet military forces in the Far East... Since any military presence in such an area is of grave concern to the defense of Japan, it is necessary that we continue to maintain close vigilance over these Soviet activities." While "grave concern" and "close vigilance" are indicated, there was no call for a direct response nor any suggestion that the Soviet presence posed a threat to the country's security.

Perceptions of a direct threat do emerge in the most recent white paper, however, published in 1983:

> The redeployment of ground troops on the Northern Terrritories was done because militarily (its) importance (has increased) and politically (to force) upon Japan the established fact of the illegal occupation of the Northern Territories.
>
> The Soviet Union has been persistently beefing up its military might in this region in terms of both quantity and quality, (representing) an increasing potential threat to Japan.... In these circumstances, efforts by Japan to maintain a proper level of defense capabilities and to enhance the credibility of the Japan-U.S. security arrangements contribute to its own security, of course, as well as to the peace and stability of this part of the world.

Successive white papers have reflected changes in defense concepts and in Japan's role in the global community. In 1979, the paper broadly examined the international military situation. By 1983, the JDA provided thoughts on specific areas, including the NATO-Warsaw Pact balance and developments in the Indian Ocean. This shift reflects important adjustments in Japanese attitudes, including these:

- Japan is vulnerable to political developments abroad. This realization was well established in the minds of Japanese officials and voters when the Middle East oil crisis erupted. Military developments have heightened this sensitivity and have encouraged policy changes not only in economic areas but in defense as well.

- Japan is a member of the global community and can contribute to global security not by being active militarily in all parts of the world but by assuming a larger role in its own defense. (Clearly, constitutional and political limitations would never permit a Japanese defense presence abroad).

- Japan is part of the Western alliance. New chapter subheadings in recent white papers specifically examine the concept of Japan as a member of the "Western camp".

- The government's perceptions of Japan's defense responsibilities have changed. Official policy seemed to assume that the United States would take primary responsibility with the Japanese government providing a supplementary role. There was a reliance on a balance of power among China, the Soviet Union and the United States to maintain stability. That concept has given way to the realization that Japan is responsible first for its own defense. Although U.S.-Japanese security arrangements still provide the bulk of real deterrent capability, it is generally agreed that Japan must be able to repel an attack until such a time as those mechanisms can be put into action. Further Japanese efforts can only improve mutual security agreements.

- Japanese officials now rely more directly on Japanese policies and actions and have less passive -- and optimistic -- assumptions that international politics will take care of the country's defense.

"56 Chugyo": The Medium-Term Defense Program

The core of Japanese defense policy implementation is the "56 Chugyo", the Medium-Term Defense Program estimate originally drafted in 1981 and amended annually. (The "56" represents the Japanese Imperial calendar year of 1981). The Chugyo is an outline of Japanese procurement policy which has become the fundamental guideline for budget decisions. It is unofficial insofar as it has never been formally approved by the Diet or issued as a policy instrument by the Japan Defense Agency, but it is an important planning concept and its implementation has been watched with interest by the country's allies. In broad terms, the Chugyo outlines the following objectives to be fulfilled by appropriate defense budgets:

- Formation of six F-15 squadrons and four F-4EJ squadrons for air defense capabilities supplemented by an E-2C early warning squadron. A total of 400 combat aircraft are sought, with upgraded surface-to-air missile units.

- Replenishment of support fighter units directed at defense against airborne and seaborne invasions, with expanded armored units, anti-tank capabilities and greater minelaying and missile ship capabilities.

- Implementation of programs to expand electronic warfare capabilities, combat readiness and sustainability of forces.

- Improved surveillance, command and communications capabilities through improvements in the base air defense ground environment (BADGE) system.

By the end of fiscal 1984, 27 percent of the plan will be in effect. It is significant to note that several elements are rather vague. In terms of strategy, it is directed to three defensive goals: control of the air space over and around Japan, protection of the coastal areas and protection of the sealances approaching Japan, ultimately to 1,000 miles. This last goal clearly will require the most time to implement and is still a source of discussion in Japan.

Self-Defense Forces: Current Strength

The Self-Defense Forces now consist of more than 241,000 ground, air and maritime forces with an authorized ceiling of 270,184 for the all-volunteer force. Ground forces (GSDF) constitute the bulk of the manpower in the SDF, with 156,000 men in 13 divisions (12 infantry and one armored). Naval forces (MSDF), including naval air support groups, have 42,000. Finally, the Air Self-Defense Forces (ASDF) have 43,000 men and 280 aircraft.

Total Japanese defense spending has increased from Y134.9 billion ($370 million) in 1955 to Y2.8 trillion ($11.6 billion) in 1983. Between 1970 and 1979, according to official Japanese government calculations, total defense spending grew an average of more than 15.8 percent annually, before inflation. Growth in defense spending fell below the ten percent level in 1980, averaging 6.99 percent through fiscal 1984. According to the 1983 defense white paper, Japan ranks eighth in total defense spending, ahead of East Germany, Israel, Poland, India, Canada, Australia and South Korea, although its spending in terms of gross national product remains among the lowest in the world.

Self-Defense Forces: Assessments

From an overall viewpoint, the SDF appears to be a respectable force backed by a comprehensive, articulated defense policy. Analysts suggest that training is uniformly good, although not necessarily superior. Antisubmarine warfare, minesweeping and minelaying capabilities are given above-average marks by U.S. naval specialists. However, there are problems which undermine policy aims. In the harsh verdict of one writer, "the issue is one of modernizing a force structure that is little more than a military joke."

The single most glaring limitation of the SDF is "sustainability." While equipment purchases have been significant, doubts exist among some observers over the the SDF's capability to sustain a large-scale operation over a prolonged period of time. For example, the ground forces have an estimated ammunition supply of just one week -- hardly an inspiring level for potential defenders of Japanese soil. In spite of the large contingent assigned to the GSDF, some analysts suspect that its attack capabilities are not particularly good.

Other weak areas exist in the maritime and air forces. Minesweeping capabilities are good, for instance, but the MSDF lacks sufficient numbers of mines to take full advantage of its capacity. Antisubmarine forces are considered sufficient to a 200 mile range, but air self-defense forces probably are inadequate to support them at that range. Logistics, communications capabilities and internal transportation problems exist at all levels of the SDF, according to one defense analyst.

Reserves are perilously low as well. The GSDF have only 40,000 men in reserve and the maritime forces have just 600. The air branch has none at all, severely restricting expansion capabilities in times of crisis. The standing forces themselves are well below their authorized levels. However, personnel costs are the largest expense facing the Japan Defense Agency, so manpower levels are the last thing officials there seek to expand.

The SDF also lacks strategic objectives and organizational plans for integrated operations. Individual missions for the three branches are limited and rarely include mutual support operations. The services are independently controlled and lack a unified command system. Coordination among the three branches in planning, drafting annual budgets, logistical support and training is poor. Moreover, far too much of the SDF's equipment is old or inappropriate for its intended usage. Sixty percent of the GSDF's supplies are obsolete or inadequate, as is 84 percent of the ASDF's and and 66 percent of the naval services'.

These problems arise from the nature of defense budget priorities. With 72 percent of the medium-term program's major acquisitions allocated to the early years of the plan, future budgets are intended as supplements. Consequently, the defense structure faces a situation in which it has considerable equipment, but lacks the means to sustain it. Stocks are insufficient, but budget limitations prevent across-the-board spending. As suggested in the goals mentioned earlier, these problems will be met in the future, but for the present, they limit the effectiveness of the SDF.

This has American officials concerned. As one defense official notes, "If you can't fight, you can't deter." And deterrence is the real role of the SDF. While American officials speak of an independent Japanese defense capability, realistically they hope that the country is capable of repelling a first wave invasion or restricting Soviet movements in the region. As presently constituted, the SDF probably could do neither.

The Budget Barrier

This leads to the one percent quandary. As a percentage of the country's gross national product, defense spending reached a peak in the postwar period in 1955 when it totaled 1.78 percent of Japan's GNP. As domestic economic development became an official government policy, defense spending relative to total government budgets was gradually reduced. The level fell below one percent in the mid-1960s and has remained there. The Miki Cabinet made this official policy in 1976.

The one percent figure has become an emotional symbol in both Japan and the United States. Initially, the policy was aimed at rectifying fears that Japanese militarism would run rampant again in the Pacific. In recent years, however, the limit has severely restricted defense plans which generally have support among Japanese voters and are being encouraged by U.S. officials. The current budget calls for Y2,934.6 billion ($12.4 billion) in defense spending, an increase of 6.55 percent from FY 83, almost one percent of Japan's GNP. Increases in base pay for civil servants could bring the total to one percent or above. Although Japanese voters would probably accept 1.01 percent or even 1.9 percent, it is the initial breach that inevitably causes concern. Once that is exceeded, a natural debate will follow over what constitutes a viable level.

For those in Japan who remember the harsh experiences of the war, and for the new generation which has enjoyed the benefits of peace, this is not a trivial question. Further, while there is growing support among Asian nations for a gradually expanding defense role by Japan in the region, a clear definition of defense sufficiency has not been provided. Consequently, the Japanese government is faced by troublesome decisions every time its defense spending needs increase, no matter how minor.

Prime Minister Yasuhiro Nakasone, who headed the JDA in 1970 and is viewed within Japan as a strong figure on national defense, has endorsed the one percent limit, but in such a way that some observers are hoping for a hike in the near future. Mr. Nakasone has vowed to honor the limitation to the "greatest extent possible", suggesting that future budgets will have higher spending levels relative to GNP and total government budgets.

The JDA's budget is limited in other respects as well. The Ministry of Finance (MOF), a powerful bureaucratic force entrusted with the rsponsiblity of preparing budget recommendations, has presented austere budgets for several years running. Defense has been one of the few categories in which MOF, concerned with government deficits, has tolerated increases.

The question, though, is what is needed and how to achieve it. Estimates vary, but it is generally suggested that 10 to 12 percent defense spending increases for five consecutive years are necessary to achieve most of Japan's aims in the mid-term plan. Some studies suggest that a maximum spending level equal to 1.8 to 2.0 percent of the country's GNP would meet overall aims and that lower levels would suffice if service missions among the three branches were redefined and the SDF was reorganized accordingly.

This returns to the problem of defining appropriate roles to satisfy domestic perceptions and cooperate with the United States on regional security. A reduction in ground forces, for example, would free resources for the maritime SDF. Since Japan is an island nation, it is argued, it is principally threatenend from the sea and air. Ground forces are suitable in repelling a land invasion which, in this case, might not be a realistic threat. Intelligence analysts disagree over the Soviet Union's capability to launch such an attack.

American Political Pressure: Congress and the "Free Ride"

Complicating the problem is persistent pressure from the Congress to expand Japanese defense spending. Underlying this criticism is the pervading sentiment, particularly as Japanese economic strength has manifested itself in American consumer markets, that U.S. support has enabled the Japanese government to commit far less to defense spending than otherwise might have been necessary, allowing the country to concentrate its efforts on domestic and international economic growth. These critics accuse Japan of benefiting from a "free ride" in defense, and they link the country's economic success with its minimal defense burden. And although administration officials would not publicly endorse this criticism, there are those who might agree that it is indeed a cheap ride.

Congressional irritation has resulted in frequent efforts to link bilateral trade issues with Japanese commitments for greater defense spending. The most recent example of this attitude is a statement released on January 30 by Sen. Carl Levin (D., Mich.) calling for tougher American positions toward Japan on defense and trade.

This linkage will not go away in the years to come. Bilateral trade deficits are so heavily in Japan's favor that no amount of defense spending is likely to satisfy the United States. The problem has now reached such exaggerated proportions that comprehensive solutions including numerous market expansion plans, higher defense spending and "fair" trade practices are required. It is doubtful whether even these concessions would still the disputes.

Ultimately, this approach might prove counterproductive. The current prime minister is an astute politician who is capable of achieving concessions of his own from the United States. To a significant extent, he has already been able to convince Washington to reduce pressure on his administration in the trade arena in return for greater cooperation in defense areas. Indeed, President Reagan's visit last November demonstrated a new sensitivity to the political difficulties facing the Nakasone Cabinet in its efforts to increase defense spending and provide trade concessions to the United States.

However, Mr. Nakasone might not be satisfied to leave the issue there. In recent statements, possibly intended for domestic constituencies, he has suggested a linkage between trade and defense issues, but from his perspective: that the United States should not expect too many concessions in certain negotiations, agriculture in particular, because his administration has already expanded defense spending far more than other categories in spite of the budget deficit.

U.S. government officials would probably disagree with this reasoning, pointing out that a stronger defense is consistent with Japan's security interests and that Mr. Nakasone himself has been a longstanding proponent of increased spending. To a certain extent, they would interpret such remarks as directed toward domestic consumption and only shallow bargaining tools in unrelated trade negotiations. But if Mr. Nakasone is preparing to break the one percent barrier as a matter of policy, he will be forced to protect other constituencies to retain overall political support and survive the inevitable criticism that will be directed toward him once that level is broken.

Nevertheless, significant political risks exist; "One Percent of GNP" is just as emotional a slogan in Japan as "No More Vietnams" is in the United States. The intensity of the debate is such that, although Japan at some point in the future will spend more on defense, the leader who takes the country into this new ground faces the distinct possibility that his career will come to a premature end.

Perceptions of U.S. Security Policy

For many years it has been apparent that the United States sought greater direct participation by Japan in meeting its defense needs. However, lack of a clear U.S. policy limited Tokyo's responses to that expectation until recently. Now that U.S. policy is more consistent, there is still a question of whether the two governments are communicating on the same level. Although there is more communication and cooperation, misperceptions might exist regarding the policy aims underlying American statements -- even at the highest levels of the government.

An advisor to Prime Minister Nakasone suggested in the summer of 1983 that it was his belief that "the United States wants Japan to buy more guns." If defense spending was increased and funds were devoted to weapons purchases, the advisor suggested, the prime minister felt that much of the political pressure generated on Japan would dissipate.

Such a perception, one analyst has responded, would be a "terrible misunderstanding" of Defense Department policies and security aims. While defense acquisitions are important in fulfilling Japanese defense strategies, sufficient support is also necessary. Furthermore, it is not simply a matter of "more guns": Japan can contribute to its own self-defense and regional security through other means as well, including aid to developing nations and intelligence activities.

In the meantime, front-loading the defense plan satisfies symbolic political needs for Prime Minister Nakasone. Weapons purchases, especially "big ticket" items, are highly visible and dramatic steps toward building Japan's defense. The purchases also contribute to slightly lower trade imbalances between the two countries.

The U.S. defense establishment is not likely to be convinced that this approach does justice to Japan's defense needs. The threat to Japan, it is argued, exists now and must be met now. "Buy now, supply later" is no more useful to Japan's security than existing outmoded equipment. The key point is that accelerated, across-the-board spending hikes are necessary if Japan's security is to be enhanced and long-term goals, including 1,000-mile sealane defense, are to be satisfied. The current "stumbling around in the status quo," suggests one observer, "is the worst option."

Alternative Contributions to Security

In what other ways could Japan contribute to security if its defense budgets remain at their present levels and pace? Although Defense Department officials suggest that there is no alternative to expanded spending, it is possible that Japan could provide considerable assistance in other areas that would go far toward aiding the policy aims of both countries in the region.

Development assistance is usually the first area suggested. Japanese aid has been extended to countries well outside its immediate environs, including Pakistan and Turkey, two countries of considerable importance to American strategists. More extensive aid programs to ASEAN nations would help to diffuse political and economic pressures. If this is the case, American officials should be encouraged by the 9 percent increase in official development assistance (ODA) suggested for fiscal 1984. The increase sets Japan back on the path of increasing its foreign aid, which had been declining in recent years from the peak level of $3.3 billion in 1980. Japan already is the fourth largest contributor among major donor countries, behind the United States, France and West Germany.

Another area in which Japan can increase its already significant contribution is in support of U.S. forces stationed in and around Japan, especially the maintenance of the Seventh Fleet. Japan now spends approximately $1 billion a year to help maintain U.S. services in Japan. Larger amounts would help reduce the "free ride" criticism in Congress. It must be noted, though, that Tokyo's contributions in this area already compare favorably with those of other U.S. allies, including West Germany. Furthermore, the quality of support services is exceedingly high. Several naval specialists have implied that the U.S.S. Midway -- the Navy's oldest carrier and the only one permanently assigned abroad -- could never have survived as long as it has without years of Japanese maintenance assistance and "TLC".

Additionally, simply providing facilities to U.S. forces in a stable democracy provides America with a reliable staging point in the region (although some Japanese government officials might grow nervous over use of such terms). "The U.S. would go nuts," one analyst noted, "if it had problems in Japan like it does with Subic Bay." America's ability to rely on Japan in providing these facilities simplifies planning considerations and provides an element of stability in long-term thinking.

Opposition in Japan to American forces has lessened over the years and is now a minor factor in bilateral defense relations. The same cannot be said of several other areas of the world in which there is an American military presence. Providing support services works to the advantage of both countries, of course, but it would not be possible without the consent and cooperation of the Japanese government. Furthermore, as a country which was once occupied, the significance of stationing American forces there today in terms of Japan's sovereignty cannot be underestimated.

The final -- and perhaps most sensitive -- area in which Japan and the United States have already demonstrated significant joint capabilities is intelligence. The same condition which poses so many problems to Japan -- proximity to the powerful and potentially threatening Soviet Union -- also gives it an advantage in intelligence operations. The KAL 007 incident indicated that Japanese intelligence capabilities are far better than is generally assumed and that the United States can depend upon Japanese cooperation in this area when mutual security concerns are clearly at stake. Transcripts released in the days following the incident indicated advanced capabilities for ground and air monitoring of Soviet flights and communications.

It should not be surprising that electronic monitoring capabilities and information gathering in Japan should be so developed. The United States and Japan lead the world in electronic technologies and should retain this advantage for years to come, especially if technological transfers and cooperation accelerate. Policy emphasis by Japan on intelligence should come as no surprise, either. As director general of the JDA, Mr. Nakasone once spoke of the need for Japan to have "long ears" to keep abreast of developments outside of the country. The capacity for absorbing and digesting vast quantities of information is frequently cited by "Japanologists" as one of the country's key strengths and reasons for success in the world. These capabilities are being enhanced under current defense programs. An MSDF ship is now patrolling the Soya Straits with the expressed purpose of monitoring Soviet communications.

A major limitation in this field is that Japan lacks an indigenous intelligence satellite program. Development of a domestic satellite program is a major government goal, but at this point it is still "hands off" for foreign involvement. National security is frequently cited as the reason for preventing outside participation in the program -- another example of the defense-trade linkage that could prove to be detrimental to both countries.

Some intelligence specialists, suspicious of Japanese motives, suggest that the problem can be resolved by purchasing an American intelligence satellite and allowing this country to operate the system and transfer information to the JDA. However, it is unlikely that Japan, which is already providing bases for American forces on its territory, would accept this type of involvement in its security activities.

Intelligence probably will be emphasized even more in the future. For relatively low costs, the returns are high. It is an area in which Japan is very capable and should remain so. Finally, it is a positive contribution to regional security and its own self defense.

The only problem is that because it is difficult for the Japanese government to take political credit for such activities, they might not earn the country great praise in the halls of Congress. The very nature of intelligence operations precludes publicity. If Japan claims it is making a major contribution to defense by operating certain intelligence networks, the claims could be substantiated only in the most guarded and classified government briefings. Most Americans and their elected representatives would never be aware of the extent and importance of those activities.

Conclusion

The largest military threat to Japan is the Soviet Union. About 25 percent of total Soviet ground forces -- 370,000 troops -- are stationed in the Far East along with 2,100 aircraft and 820 ships displacing 1.62 million tons. Most of the ground forces are tied down along the Sino-Soviet border, but the remaining air and naval capabilities affect Japan directly. Soviet troops have been redeployed in the northern islands of Kunashiri, Etorofu and Shikotan, supported by tanks, armored personnel carriers, long-range 130 mm cannons and MI-24 Hind ground attack helicopters. MiG-17 fighters are deployed at the Tennei air field on Etorofu and are being replaced by more modern MiG-21s.

These forces pose considerable danger to Japan's physical security but even more important is their potential utilization for political blackmail. In debating long-term strategies it is often forgotten by casual observers of Japanese defense policies that the current military superiority of the Soviet

Union vis-a-vis the U.S. ally can also be used to wring political or economic concessions out of Japan which might be inconsistent or harmful to its long-term interests.

Japan's defense policies must address this potential danger as well as other concerns because the threat of interference with the nation's political processes is as real as the possibility of another Middle East oil crisis. It is highly conceivable that in order to gain particular trade concessions, access to valuable technology, or favorable political treatment, the Soviet Union would exercise its military presence in an attempt to intimidate the Japanese government. A sufficient self-defense capability backed by a credible American defense commitment will help prevent that threat to the Japanese political system.

Despite continuing disagreements over spending levels, technology transfers and other issues, mutual security questions increasingly have been treated by Japan and the United States in a more mature fashion. Consultations on a number of fronts have accelerated and cooperation appears to be an institutionalized process rather than an exception to the rule. The U.S. Department of Defense has publicly refrained from directly criticizing its ally and has been careful in describing Japanese defense plans as internally-generated policies, not edicts issued by DOD. This lends the policies greater credibility in Japan and aids their ultimate acceptance.

At the same time, Japanese defense officials have, in a sense, "come of age." The relatively bold statements of the prime minister have served several purposes at home and abroad. They have indicated to allies that Japan is willing to assume a greater global role and have forced Japan to reassess its responsibilities. Flaps over "unsinkable aircraft carriers" notwithstanding, the debate over defense in Japan is more open and is relatively free of the reticence and possibly guilt that tarnished it in earlier years.

There appears to be growing acceptance in Japan that building a legitimate and sensible self-defense capability is not tantamount to revived Japanese militarism. This is not to say that a consensus has emerged regarding the appropriate size and role of the SDF, or that all the individual elements of Japan's defense policies have widespread public support. However, government officials and voters alike are more willing to examine these issues today than in previous years. Consequently, the country is not likely to shy away from what it accepts as its responsiblity as a great power.

It is difficult to overemphasize the significance of these developments for Japan. In a few decades, the country has emerged from a bitter experience with a military regime to a position as an important ally of the United States. Much of the transformation has taken place in a relatively short time. American officials and observers, while perhaps justified in urging Japan to assume greater defense responsibilities, must keep in mind that the country has already made great strides in only a few years in terms of defining its own policies and in securing public support for them. Harping on one percent of the GNP -- in either country -- does not serve mutual interests or needs. Cooperating and negotiating as equals does.

For further information, contact Michael Chinworth.

* * * * * *

Table 1: Defense Expenditures of 20 Largest Countries (Fiscal 1981)

	Total Expenditures (Y billion)	Per Capita Defense Expenditures (Y1,000)	Ratio of Defense Expenditures to Budget (%)	Ratio of Defense Expenditures to GNP (%)
1. Soviet Union	Unconfirmed	Unconfirmed	Unconfirmed	8.4% -- 15.0%
2. United States	40,430	180	25.3	6.1*
3. China	Unconfirmed	Unconfirmed	Unconfirmed	Unconfirmed
4. West Germany	6,669	108	28.2	4.3*
5. Saudi Arabia	5,606	692	27.2	20.5
6. Britain	5,506	99	12.1	5.4*
7. Brance	5,406	100	20.7	4.1*
8. Japan	2,400	20	5.1	0.9
9. Argentina	2,315	83	64.2	8.1
10. Italy	2,013	35	5.6	2.5*
11. East Germany	1,596	95	8.6	7.7
12. Israel	1,390	348	30.6	28.7
13. Poland	1,242	35	5.1	4.3
14. India	1,208	2	17.3	3.3
15. Canada	1,128	47	8.3	1.7*
16. Australia	1,097	73	Unconfirmed	3.0
17. Netherlands	1,083	76	9.7	3.4*
18. Iran	1,011	26	10.6	3.6
19. South Korea	912	23	34.2	6.3
20. Czechoslovakia	872	56	8.2	Unconfirmed
(for comparison)				
North Korea	386	21	14.7	8.9

*Ratio of defense expenditures to gross domestic product.

Notes: 1. Figures for each fiscal year given are those for the fiscal year which started in the corresponding year.
2. Estimated defense expenditures for the Soviet Union for 1980 were placed at $175 billion in 1979 prices by a 1981 CIA report. Current estimates of Soviet defense spending are higher.
3. Defense expenditures for NATO countries calculated according to NATO-defined unified concepts.
4. Conversion rate of Y229.56=U.S.$1.00 used for this table.

Source: Japan Defense Agency, Defense of Japan 1983

Table 2: Composition of Defense Expenditure Increases Classified by Use (Fiscal 1972-1983)

Fiscal Year:	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983
Personnel, provisions	46.6%	46.5%	48.5%	52.9%	56.0%	55.0%	54.4%	51.4%	49.3%	47.7%	46.6%	44.5%
Purchases, maintenance	14.7	14.2	14.2	14.5	14.5	14.5	14.5	13.9	14.1	14.7	15.8	16.3
Equipment	24.9	25.4	22.9	19.0	16.4	17.4	17.1	18.7	20.7	22.5	22.4	24.9
Facilities	2.9	3.1	2.6	2.3	2.3	2.4	2.4	2.9	2.8	2.2	2.3	1.9
R & D	1.4	1.3	1.1	0.9	0.9	0.9	0.9	1.0	1.0	1.0	1.1	1.1
Base countermeasures	7.6	7.5	8.8	8.6	8.2	8.0	8.7	10.2	10.4	10.5	10.4	10.0
Other	1.9	2.0	1.9	1.8	1.7	1.6	2.0	1.8	1.8	1.5	1.4	1.3

Table 3: Japanese Defense Expenditures Classified by Expense

Fiscal Year	1977	1978	1979	1980	1981	1982	1983
Defense Expenditures							
(Y billion)	Y1,691	Y1,901	Y2,094	Y2,230	Y2,400	Y2,586	Y2,754
($ billion)	$ 6.30	$ 9.03	$ 9.56	$ 9.84	$10.88	$10.38	$11.60
Personnel, provisions	55.0%	54.4%	51.4%	49.3%	47.7%	46.6%	44.5%
Obligational outlays	20.8	20.9	21.3	23.4	26.0	27.1	31.1
Other	24.2	24.7	27.3	27.3	26.3	26.3	24.4

Note: Dollar figures are converted from yen at average annual exchange rates as calculated by the International Monetary Fund.

Source: See Table 1

Table 4: Changes in Japan's General Account, Defense Outlays (original budgets)

Fiscal Year	General Account	Defense Outlays	Ratio
1955 (Ybillion)	Y 991.5	Y 134.9	13.6%
($billion)	$ 2.75	$ 0.37	
1965	Y 3,658.1	Y 301.4	8.2
	$ 10.16	$ 0.84	
1974	Y17,099.4	Y1,093.0	6.4
	$ 58.74	$ 3.75	
1975	Y21,288.8	Y1,327.3	6.2
	$ 71.73	$ 4.47	
1976	Y24,296.0	Y1,512.4	6.2
	$ 81.93	$ 5.10	
1977	Y28,514.3	Y1,690.6	5.9
	$ 106.19	$ 6.30	
1978	Y34,295.0	Y1,901.0	5.5
	$ 162.94	$ 9.03	
1979	Y38,600.1	Y2,094.5	5.4
	$ 176.12	$ 9.56	
1980	Y42,588.8	Y2,230.2	5.2
	$ 187.82	$ 9.84	
1981	Y46,788.1	Y2,400.0	5.1
	$ 212.16	$ 10.88	
1982	Y49,680.8	Y2,586.1	5.2
	$ 199.48	$ 10.38	
1983	Y50,379.6	Y2,754.2	5.5
	212.17	$ 11.60	

Note: Dollar figures are calculated in the same way as in Table 3.

Source: See Table 1

Table 5: Changes in Japan's Defense Expenditures (original budgets)

Fiscal Year	Growth in General Account	Change in Defense Budget	Ratio to GNP
1955	-0.8%	-3.3%	1.78%
1960	10.6	0.6	1.23
1965	12.4	9.6	1.07
1970	18.0	17.7	0.79
1971	18.4	17.8	0.80
1972	21.8	19.3	0.88
1973	24.6	16.9	0.85
1974	19.7	16.8	0.83
1975	24.5	21.4	0.84
1976	14.1	13.9	0.90
1977	17.4	11.8	0.88
1978	20.3	12.4	0.90
1979	12.6	10.2	0.90
1980	10.3	6.5	0.90
1981	9.9	7.6	0.91
1982	6.2	7.8	0.93
1983	1.4	6.5	0.98

Source: See Table 1

Table 6: Rates of Obsolescence in Japanese Forces

	Total Quantity	Up-to-Date Equipment		Old/Obsolete Equipment	
Ground SDF					
Main battle tanks	910	38%	(Type 34)	62%	(Type 61)
Armored personnel carriers	530	22	(Type 73)	78	(Type SU-60)
Field artillery	810	19	(SP guns and MRLS)	81	(Towed weapons)
SAMs	192	28	(Improved Hawks)	72	(Hawks)
Antitank weapons	1,845+	51	(ATM SP 106mm, TOW)	49	(106mm, Type 64 ATGM)
Attack helicopters	2	100	(AH-1S Cobra)		
Utility helicopters	370	51	(KV-107, UH-1H)	49	(TH-55, OH-6J/D)
Average		40%		60%	
Maritime SDF					
Submarines	14	71%	(Yushio, Uzushio classes)	29%	(Asahio class)
Destroyers	33	52	(Shirane, Hatsuyuki classes)	38	(Minegumo, Ayanami classes)
Frigates	33	6	(Ishikare class)	94	(Chikugo, Isuzu classes)
Mine warfare ships	40	65	(Takami, Hatsushima classes)	35	(Kasadio, Nanago classes)
ASW patrol aircraft	110	0		100	(P-2J, S-2F, PS-1)
ASW/MCM helicopters	60	11	(KV-107 MCM)	89	(HSS-2/A/B ASW)
Average		34%		66%	
Air SDF					
Interceptors	240	4%	(F-15J)	96%	(F-104DH, F-4E)
Fighter-bombers	60	100%	(F-1)		
Reconnaissance	14	0		100	(RF-4E)
SAMs	100	0		100	(Nike-J)
Average		26%		84%	

Source: Anthony H. Cordesman, "The Military Balance in Northeast Asia: The Challenge to Japan and Korea", Armed Forces Journal, December 1983.

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State Department, USTR Examine Bilateral Relations

In revealing comments that might reflect a fundamental shift in American policies, Under Secretary of State Lawrence S. Eagleburger suggested last week that difficulties between the United States and its European allies could result in greater emphasis by this country on bilateral relations with Japan.

Speaking on the record, Mr. Eagleburger said that divergent interpretations of international security problems have produced "what I would have to describe as the shift of the center of gravity of U.S. foreign policy from the transatlantic relationship toward the Pacific Basin and particularly

Japan's 1983 Balance of Payments

According to balance-of-payment figures released by the Ministry of Finance, Japan's current account (the trade balance plus services and transfers) registered a record surplus of over $21 billion, reflecting a $31.6 billion trade surplus. The overall balance reversed a four-year string of deficits, showing a surplus of $5.2 billion. Japan continues to run a deficit in services trade and the long-term capital deficit continues to widen. The basic balance (the current-account balance plus long-term capital flows), however, also registered a surplus for the first time in five years. Balance-of-payment statistics for the last five years are summarized in the table below.

Japan's Global Balance of Payments

(in millions of dollars, IMF value basis, seasonally unadjusted)

	1983	1982	1981	1980	1979
Exports (f.o.b.)	$145,529	$137,663	$149,552	$126,736	$101,232
	(5.7)	(-7.9)	(18.0)	(25.2)	(5.7)
Imports (f.o.b.)	113,780	119,584	129,555	124,611	99,387
	(-4.9)	(-7.7)	(4.0)	(25.4)	(39.9)
Trade Balance	31,649	18,079	19,967	2,125	1,845
Services	-9,058	-9,848	-13,573	-11,343	-9.472
	(8.0)	(27.4)	(-19.6)	(-19.7)	(-28.2)
Transfers	-1,567	-1,381	-1,624	-1,528	-1,127
	(-13.5)	(15.0)	(-6.3)	(-35.6)	(-67.0)
Current-Account Balance	21,024	6,850	4,770	-10,746	-8,754
Long-term Capital	-17,798	-14,969	-9,672	2,324	-12,976
	(-18.9)	(-54.8)	(-516.2)	(-117.9)	(4.7)
Basic Balance	3,226	-8,119	-4,902	-8,432	-21,730
Short-term Capital	176	-1,579	2,265	3,141	2,735
	(111.1)	(-169.7)	(-27.9)	(14.8)	(77.8)
Errors & Omissions	1,775	4,727	493	-3,115	2,333
Overall Balance	5,177	-4,971	-2,144	-8,396	-16,662

Note: Figures in parentheses are percentage change from previous year.

With near-record exports of $145 billion and contracting imports of $114 billion (a 4.9 percent drop from the previous year), the trade surplus of $31.6 billion easily tipped the overall balance toward surplus. The 5.6 percent rise in exports was attributed by the Finance minister to the strengthening world economy, especially the U.S. recovery, while oil price declines were responsible for the drop in imports (see JEIR 4B, January 27, 1984). The strong dollar and looser restrictions on foreign activities for both Japanese commercial and financial businesses helped push the long-term capital balance into the red for the third consecutive year: capital outflows from Japan rose $5.1 billion to $32.5 billion, outweighing a rise in capital inflows of $2.3 billion to $14.8 million during 1983. Japanese banks were extremely active in the Euromarket, increasing their holdings above those of other participants. Changes favorable to Japan also occurred in the services and short-term capital categories, contributing to the record performance.

The payments surplus reflects the growth of Japan's gross national product which began to pick up speed during 1983 after a lackluster performance in the previous two years. While growth was clearly export led, the figures for December indicate that domestic demand is beginning to revive (imports rose over 10 percent from the same month a year ago).

According to conventional economic theory, a rising current-account surplus should increase pressure on the yen to appreciate against the U.S. dollar. However, so long as U.S. real interest rates remain high, the yen is not likely to appreciate much even coupled with record American trade deficits. This prospect would seem to lead to even higher trade and current-account surpluses, but other economic factors now in motion could dampen that trend. If Japan's economy does manage to expand at the forecast 4.1 percent annual rate on the strength of a 5.1 percent rise in capital investment and a 4.1 percent increase in private consumption, the payments surplus may moderate as the economy pulls in more imports of raw materials and manufactured goods. As the American economy's growth begins to calm, Japan's export growth will also tend to drop, again reducing the overall payments surplus.

The political fallout from Japan's strong showing may be greater than its economic impact. The record-setting surplus translates into deficits for Japan's key trading partners, in particular the United States. In an American election year, the Japanese are concentrating on solving bilateral trade issues now to avoid further politicization as the campaign season gets underway. The recent flurry of activity by American and Japanese officials attests to the mutual interest of the two governments in putting to rest long-standing problems as soon as possible. Unfortunately, nothing Prime Minister Nakasone or President Reagan does will prevent U.S. politicians from raising a fuss over Japan's favorable economic position. As candidates line up on U.S.-Japan bilateral trade issues, few are likely to choose Japan's side.

Jon Choy

Bilateral Trade Imbalance Played Small Role in U.S. Deficit

Lackluster business conditions in most major foreign markets and steady economic recovery in this country teamed up with the strong dollar in 1983 to produce a record-shattering U.S. merchandise trade deficit. At $57.5 billion, the overall red-ink trade entry topped 1982's near-peak deficit by a whopping $25.8 billion. Sales abroad dropped for the second year in a row, falling 5.5 percent to $200.5 billion. At the same time, imports, which

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JAPAN'S BUDGET: LEADERSHIP AND CONTROL

Summary

Within weeks after the December election, the Nakasone administration had prepared a draft of the FY 1984 budget. Despite the high budget deficit, Prime Minister Nakasone seems to have exercised strong leadership in favor of increased spending for defense and foreign economic assistance, although the executive's ability to shape budget decisions is actually rather marginal, particularly under the conditions imposed by the existence of both a large deficit and a powerful government bureaucracy.

This year, the budget deliberation process will not move as smoothly as in the past because the Liberal Democratic Party's (LDP) slim majority is expected to have a difficult time convincing the opposition parties to go along with the planned increase in defense spending. Critics of the budget are quite worried that the "one percent of GNP" ceiling on defense is endangered by the slated rise contained in the FY 1984 budget. A "new limit" to further government expansion of the military establishment might become the major issue in the current Diet budget discussions.

A Problematic Budget

The FY 1984 budget is problematic both domestically and internationally in at least three ways. In terms of its overall framework, the budget is neither austere enough to shrink the huge budget deficit nor strong enough to stimulate the economy (see Tables 1, 2). To a large extent, the government's efforts are constrained by its debt servicing responsibilities, which amount to close to the expected revenue from new bonds. In addition to these difficulties, the Nakasone administration agreed during the election campaign to a tax cut to counter the growing resentment of many taxpayers over the steady bracket creep since the last reduction in 1977.

In the international arena, the budget is considered to be too conservative. Government expenditures for infrastructure, such as highway and airport construction, are 2 percent below FY 1983's budget. The reduction in personal income taxes will be completely offset by hikes in the tax on corporate income, liquor and consumer electronics. In terms of the GNP account, the government will contribute only 0.2 percentage points in real terms to the 4.1 percent growth rate authorized at a Cabinet meeting on January 19th. Despite the government's assumption that Japan's economic expansion in 1984 will come mostly from the domestic economy, many Japanese economists are concerned that economic growth will continue to be led by exports, bringing renewed demands for more protection, especially from the United States.

Defense Spending--The government is in the same position vis-a-vis the defense allocation (see Table 3). The 6.55 percent defense increase has endangered the sacred one percent of GNP limit (see JEI Report No. 5A, February 10, 1984). The ratio will rise in FY 1984 to 0.99 percent -- compared to 0.98 percent for FY 1983. Still, the level of expenditures called for in the budget remain far below the necessary outlays required to achieve the mid-term military buildup plan (FY 1983-87). The members of the Western alliance, especially the United States, are anxious about this since they feel that achievement of this plan would be evidence of Japan's intention to contribute to the defense of the free world.

Nonetheless, the increase in defense spending is far larger than the increase in the general account (0.5 percent). "The priority accorded to defense rather than expenditures for items like welfare, education and public works has indeed become established," Yukio Sato, a former researcher at the International Institute for Strategic Studies in London told JEI. Five years ago, the policy was to hold defense expenditures below those for welfare, education and public works. In FY 1981, for the first time since the war, defense spending hit 7.61 percent, exceeding the rate of increase for all other major budget items. In FY 1982, the hike was 7.78 percent -- compared with 6.2 percent for the total budget. In FY 1983 and FY 1984, the share of general expenditures (the government's total spending minus debt service and revenue sharing) accounted for by defense spending increased remarkably, rising from 7.2 percent in FY 1979 to 9.0 percent in FY 1984. Since 1979, when the Japanese government first adopted fiscal austerity, the cumulative increase in defense expenditures has been 40 percent--while general expenditures have increased only 11.5 percent. Given this trend, it will be quite difficult to retain the one percent ceiling on defense expenditures in FY 1985--to say nothing of 1984--if wages for government employees are raised by more than three percent.

Although domestic critics see this growth as notably rapid, Japan's defense effort is still considered sluggish by its Western allies. This may be a problem if it turns out that the mid-term military buildup is unattainable. And attainment will be difficult given that only about 27 percent of the plan has been fulfilled to date, despite the Japan Defense Agency's hope that it

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would be 40 percent completed in the first two years. Even though the Ministry of Finance (MOF) considers the plan an internal document to be used for the purpose of budget negotiations, abroad it appears to be considered a government commitment.

Economic Aid--In every office in the MOF's Budget Bureau, there are exhortations stressing austerity on large sheets of paper pinned to the wall. In the office that oversees the budget for agencies handling overseas aid, the slogan reads "Never Say 'A Special Item', That is Against Our Goal of Budget Rehabilitation!" But the 7.9 percent hike in economic assistance is the highest increase granted any item. Many Japanese taxpayers will wonder about this exception when they have to cope with added costs resulting from the government's budget squeeze. Spending cutbacks will be felt in welfare (up two percent), education (up one percent), public works (down two percent) and the food control account (down 11 percent). Tuition for the national universities, public housing charges, rice prices and Japanese National Railway fares will all rise in FY 1984.

Despite this attention, the aid program still won't come close to meeting Japan's goal of doubling official development aid (ODA) during FY 1981-85. In order to meet this goal, the aid budget would have to be increased 14 percent in each of the five years. The actual budget increases for ODA have been only 12.8 percent in FY 1981, 11.4 percent in FY 1982, 8.9 percent in FY 1983 and 9.7 percent in FY 1984. Furthermore, the amount of disbursed aid if measured in dollars fell 4.1 percent and 4.7 percent in FY 1981 and FY 1982, respectively. Japanese government officials acknowledge that it will be impossible to meet the aid-doubling total since it would necessitate a 21.1 percent increase in FY 1985. One of the MOF officials who is in charge of the budget contends that "It is unreasonable to pledge the increases in disbursements contained in the long-term aid plan because the amount of possible disbursements is liable to be affected by many unpredictable factors, like fluctuations in the foreign-exchange rate, national economic growth and policies by foreign governments that often delay implementation."

The Budget Process

Domestic and Foreign Reaction--Almost every Japanese newspaper shared the opinion voiced by a Tokyo Shimbun headline on January 26th which stated "Priority on External Interests, Adverse Effects on Our Own Lives". A letter to the editor published in Asahi Shimbun on January 26 reflected the feelings of many Japanese when the author wrote that he could not agree with the "extraordinary" increase in defense expenditures "while taxpayers are forced to suffer under a heavier tax burden." Many newspaper articles stressed that it was due to Prime Minister Nakasone that the budget contained the large increase in defense expenditures and in overseas economic cooperation.

In Washington, State Department officials commenting on Japan's FY 1984 budget said "We understand and appreciate the efforts of the Japanese political leadership to maximize budget allocations for defense at a time when serious fiscal problems force spending cutbacks elsewhere." In a meeting on January 27 with Japan's Minister of Foreign Affairs Shintaro Abe, Defense Secretary Caspar Weinberger also expressed his appreciation for the Japanese defense budget which "represents an increase of 4.75 percent in real terms." He also sent his regards to Prime Minister Nakasone to whose private initiative he credited the higher increase in defense spending.

It is quite clear that the Japanese government has tried to impress on both domestic and foreign audiences that the budget focus is shifting dramatically from domestic to external concerns. The government is proceeding to educate the country to accept the retreat from the type of abundance supported by budget expenditures for welfare, education, public works or industrial development during the 1960s and 1970s. This proposition is being presented in the context of the budget balancing plan and the administrative reform proposals, both of which have the strong support of the business community. Continued budget deficits, it is thought, will tempt the government to repeatedly increase corporate taxes.

Ostensible Versus Actual--In Japan, the parliamentary Cabinet system, which has operated nearly thirty years under LDP rule, has given inconspicuous but substantial power to one group of bureaucrats in the Budget Bureau of the Finance Ministry. This group is sometimes compared to those stage assistants who, dressed in black clothes and veils, help manipulate lifesize puppets on the stage. But a better analogy would describe them as scriptwriters who dictate the actors role. These officials conduct their own internal budget process--the actual one rather than the one that is seen by the public. Like scriptwriters, they write a scenario. As in a play, they always allow the 'actors'--ministers or party leaders who represent various interest groups--some lines, but always under the constraints dictated by scarce resources and an enormous demand for government money. The budget scenario is worked out in the context of underlying economic conditions and the framework is determined primarily by the bureaucracy--but it must also have some dramatic appeal.

The highlight occurs during the week just prior to the Cabinet's final action. Five to seven days before this decision, the MOF's draft budget is authorized at a Cabinet meeting and each government agency is notified of its contents. Predictably, the amount is rejected as inadequate. The agencies campaign vigorously to recover a substantial amount of their original requests and are supported in this effort by interest groups and sympathetic Diet members. In the final act of the drama, there are usually at least four "actors" on stage: the Ministry of Finance and three LDP administrative leaders, including the secretary-general. At the last moment, the principal "actor" (the prime minister) participates in the play--(usually over the telephone)--to confirm the final decision.

However, the actual process occurs in reverse order. The budget experts first decide on the final numbers. Several days before the Cabinet authorization of the MOF draft, they remove a portion of the final amount which they later return in response to requests by concerned ministries and Diet members.

This two-stage decision is useful to impress the audience with the fact that certain sections of the budget are larger than they seem. For example, the defense budget increase of 6.55 percent was announced several days after the release of the MOF draft in which the increase was only 5.1 percent (less than FY 1983). The timing of the announcement made the increase seem larger than it really was (in fact, it was only slightly higher than FY 1983's level, and far lower than 197[illegible]'s 21.44 percent allocation). This was especially convincing when coupled with the chorus of criticism raised by Japanese journalists about the "extraordinary" recovery of the defense budget. Thus, the process was quite effective in impressing the audience with the Japanese government's support for defense spending.

The Role of the Leadership--In Japan, the ruling party is responsible for ensuring the passage of the budget, and after nearly thirty years of one-party rule, a widespread understanding has developed that the main role of the LDP is just to vote for passage. During Diet consideration, opposition party members ask critical questions of the Cabinet, but this has little effect on the final outcome since the LDP holds a majority of the Diet seats. In other words, the budget draft is really the final budget. The earlier opportunity for LDP members to have their say is considered so important that the deliberations in the Diet are not expected to cause any problems for the administration. Each member will have had a chance to participate in the budget process and exert pressure on behalf of items of interest to his constituencies.

In the last act of the play, the prime minister's assent is required to revise the defense budget. Mr. Nakasone's views on this subject had been spelled out during President Reagan's visit in November 1983, when the prime minister said that "with respect to the improvement of our own defense capability, I wish to make further efforts . . .". Koji Tanami, the Budget Bureau official in charge of the defense budget, explained in an interview with the Japan Economic Institute that, "In fact, we had only a narrow range of alternatives. In terms of the rate of increase, five percent was the minimum and seven percent was the maximum." The government was obligated to pay the procurement costs of items already in the pipeline and these costs by themselves necessitated at least a 4.6 percent increase. However, the prime minister had promised to maintain the one percent ceiling even before the election at a time when the LDP was still expected to win a clear majority. The one percent ceiling meant a maximum increase had to be below 7.47 percent.

The prime minister is said to have suggested the 6.55 percent figure when the MOF and key party leaders participating in the final decision on the budget failed to agree. Diet member Taku Yamazaki, a former parliamentary vice director-general of the Defense Agency and one of Mr. Nakasone's closest aides, pointed out in an interview with JEI the factors which he advised the prime minister to take into account when making the final decision on the defense budget: the impact of the budget on the domestic political situation; the constraints on the budget posed by the deficit; the requirements of the mid-term defense program begun in FY 1983; the maintenance of the one percent of GNP ceiling; and the implications of the defense budget for the Japan-U.S. relationship.

The Finance Ministry decision to support the increase had been expected. The rise was not too extreme and the hike demonstrated the administration's leadership ability. The ministry had already anticipated the amount necessary to generate a growth of spending above last year's increase. The amount worked out to about Y1.7 billion ($7.2 million). In conclusion, the ability of political actors to affect budget policy is less than it appears to be. It is true that top LDP leaders, including Prime Minister Nakasone, exert a certain amount of leadership, but it is only marginal.

Timing the Deliberations

Because the general election was held late in the year, the budget deliberation process started later than usual and passage of the resolution might be difficult before April 1st, the start of fiscal 1984. Budget committee chairman Kuranari says he is optimistic that "(the opposition parties) won't be so childish as to delay the deliberation process only to trouble the government."

But it remains to be seen whether Mr. Kuranari is right. The LDP can no longer rely on a clear majority and the opposition parties are very nervous about the possibility that the defense ceiling will be breached in FY 1985. Newspapers have already started to calculate the ratio of the defense budget to GNP down to the third decimal place and are reporting figures around 0.991 percent. This type of detailed calculation, which is quite unusual, sets the stage for the time when the one percent figure is violated by the annual wage increase scheduled to take effect for all government employees around the middle of the year.

The government will argue that if the opposition insists on a generous wage increase, it will be responsible for damaging both the tight budget and the one percent ceiling. The Director-General of the Administrative Management Agency, Masaharu Gotoda, has already commented on this relationship. The opposition is extrememly frustrated since it will be forced to make a difficult choice between maintaining the integrity of the defense cut-off or supporting the interests of government employees.

A New Limit?

Facing up to the arithmetic, Congressman Takashi Kosugi, a member of the New Liberal Club (NLC), whose members joined the ruling coalition with the LDP after the December election, predicted that "now that the one percent ceiling is almost breached, we should give serious attention to a new limit to the defense budget." In Mr. Kosugi's view, defense policy should be part of a comprehensive philosophy, not only a ceiling on military costs. "The NLC," he stated, "could only do a few things when the FY 1984 budget was composed. We were, however, able to contribute somewhat in helping to minimize tax increases and reform the government structure. In the case of external issues, we failed to persuade Prime Minister Nakasone to keep the rate of increase in defense spending below that of FY 1983 (6.5 percent). However, we were influential in obtaining an outstanding increase in overseas economic aid, which registered the largest rate of increase (7.9 percent) of all items." A bigger rise in overseas economic aid, he told JEI, as opposed to an increase in defense spending, is more in line with the NLC's "Comprehensive Security Policy" since this policy advocates a well-balanced national security program that contains not only military but also economic measures.

At a Diet session in December 1982, the prime minister also mentioned this "new limit." At the time, he was still able to adopt a bold defense stand since the LDP held a clear majority in the legislature. But the opposition parties, led by the Japan Socialist Party (JSP), will be strongly opposed to any concept that allows for unlimited military expansion. Budget authorities, who want to keep defense spending under control, are naturally reluctant to support the idea. One official said "it is typical of the Japanese way of thinking to seek a 'new tool' (in this case a new ceiling) at the precise moment when the existing tool begins to have a significant policy impact."

The budget process addresses an underlying problem--the Japanese political leadership's ability to influence decisions. As with defense, many important policymaking activities are both controlled by the amount of money appropriated by the bureaucracy and on the other hand are subjected to external pressure originating mainly in the United States. The defense issue is only the most clear-cut example.

The discussion on the "new limit" might simply turn into an easier way to expand Japan's military forces. However, it might lead to a more serious discussion on how the Japanese leadership--and indeed all elected officials--can strengthen their identity in order to come to terms with the difficult problem of what is the most appropriate way Japan can use its economic power to contribute to global security.

For further information, contact Hiroshi Ando.

The opinions expressed in this report are the author's and do not necessarily represent those of the Japan Economic Institute.

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Table 1: Japan's FY 1984 Budget

(in billions of yen)

	FY 1984	Percentage Change From FY 1983
Revenue		
Tax Receipts	Y34,596	7.1%
Non-Tax Receipts	3,351	-29.0
Proceeds From Bond Issues	12,680	-5.0
(For Deficit Financing Bonds)	(6,455)	
Total	50,627	0.5
Expenditures		
Debt Service	Y9,155	11.7%
Revenue Sharing	8,886	18.2
General Expenditures	32,586	-0.1
Social Security	9,321	2.0%
National Defense	2,935	6.65
Overseas Economic Aid	544	7.9
Education and Science	4,867	1.0
Energy	603	0.9
Pensions	1,886	-0.2
Small Business	229	-5.5
Food Control Account	813	-11.0
Public Works	6,520	-2.0
Total	50,627	0.5

Source: Ministry of Finance

Table 2: Deficit Financing as a Percent of the Budget

Year	Japan	United States	United Kingdom	West Germany	France
1965	5.2%	1.3%	n.a.	1.6%	n.a.
1966	14.9	2.8	n.a.	1.8	n.a.
1967	13.8	5.5	n.a.	10.2	4.0%
1968	7.7	14.1	n.a.	6.5	5.9
1969	5.9	n.a.	n.a.	n.a.	n.a.
1970	4.2	1.5	n.a.	n.a.	n.a.
1971	12.4	11.0	n.a.	1.4	n.a.
1972	16.3	10.1	2.9%	4.3	n.a.
1973	12.0	6.0	8.7	2.6	n.a.
1974	11.3	1.7	12.1	7.7	n.a.
1975	25.3	13.9	18.4	21.1	12.2
1976	29.4	18.2	14.2	15.9	6.4
1977	32.9	11.2	11.9	12.9	5.6
1978	31.3	10.9	16.3	13.9	7.4
1979	34.7	5.6	10.9	12.8	5.5
1980	32.6	10.3	13.1	12.8	5.6
1981	27.5	8.8	9.5	16.3	11.8
1982	29.7	15.2	8.0	16.3	11.3
1983*	26.5	26.0	8.1	16.3	13.1
1984*	25.0	20.9	n.a.	14.6	n.a.

*Estimated.

Source: Ministry of Finance

Table 3: Defense Budget

		Defense Budget			
Fiscal Year	Percentage Change in Total Budget*	Percentage Change	Share of Total Budget	Share of "General Expenditures"	Share of GNP
1962	24.3%	15.66%	8.9%	10.9%	1.18%
1963	17.4	15.69	8.5	11.0	1.18
1964	14.2	14.03	8.5	10.6	1.14
1965	12.4	9.57	8.2	10.3	1.07
1966	17.9	13.02	7.9	9.7	1.10
1967	14.8	11.81	7.7	9.7	0.93
1968	17.5	10.81	7.3	9.3	0.88
1969	15.8	14.63	7.2	9.4	0.84
1970	18.0	17.72	7.2	9.5	0.79
1971	18.4	17.80	7.1	9.5	0.80
1972	21.8	19.27	7.0	9.1	0.88
1973	24.6	16.90	6.5	8.7	0.85
1974	19.7	16.84	6.4	8.5	0.83
1975	24.5	21.44	6.2	8.4	0.84
1976	14.1	13.94	6.2	8.0	0.90
1977	17.4	11.79	5.9	7.8	0.88
1978	20.3	12.45	5.5	7.4	0.90
1979	12.6	10.18	5.4	7.2	0.90
1980	10.3	6.48	5.2	7.3	0.90
1981	9.9	7.61	5.1	7.5	0.91
1982	6.2	7.78	5.2	7.9	0.93
1983	1.4	6.50	5.5	8.4	0.98
1984	0.5	6.55	5.8	9.0	0.99

*General Account

Source: Ministry of Finance

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JEI

REPORT

NO. 7B
February 17, 1984

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Tokyo Reviews U.S.-Japan Issues

As a result of visits to the United States by Foreign Minister Shintaro Abe and Minister of International Trade and Industry Hikosaburo Okonogi, the Nakasone government has re-evaluated its strategy for solving several long-standing and some newer bilateral issues. The Foreign Minister briefed the prime minister and the Cabinet on the results of discussions with U.S. officials held during his eight-day trip (see JEIR 5B, February 3, 1984). With the U.S. elections in mind, Mr. Abe strongly recommended that the sources of U.S.-Japan trade friction be eliminated "if not in two or three months, then in

STATISTICAL SUPPLEMENT

Trade and Payments Data

(in millions of dollars unless otherwise indicated)

	1981	1982	January-December 1982	January-December 1983	October 1983	November 1983	December 1983
Japan's Balance of Payments							
Trade Balance	$ 19,967	$ 18,079	$ 18,079	$ 31,649*	$ 3,094*	$ 2,115*	$ 3,863*
Exports (f.o.b.)	149,522	137,663	137,663	145,429*	12,771*	12,174*	14,866*
Imports (f.o.b.)	129,555	119,584	119,584	113,780*	9,677*	10,059*	11,003*
Current Account Balance	4,770	6,850	6,850	21,024*	2,281*	868*	3,315*
Long-Term Capital (net)	-9,672	-14,969	-14,969	-17,798*	-2,379*	-1,412*	-1,882*
Overall Balance	-2,144	-4,971	-4,971	5,177	-172	1,078	1,037
International Reserves (end of period)	28,403	23,262	23,262	24,496	24,665	24,697	24,496
Japan's Customs Clearance Trade							
Trade Balance	8,741	6,900	6,900	20,455*	2,021	1,194	2,872*
Exports (f.o.b.)	152,030	138,831	138,831	146,932*	12,835	12,415	15,222*
Cars	18,445	18,015	18,015	19,540*	1,708	1,611	1,816*
Steel	16,669	15,645	15,645	12,850*	1,111	1,078	1,340*
Imports (c.i.f.)	143,290	131,931	131,931	126,478*	10,814	11,221	12,350*
Crude Oil	53,343	46,274	46,274	40,063*	3,072	3,536	4,286*
Japan-U.S. Trade							
Trade Balance	13,312	12,151	12,151	18,135*	1,976	1,937	2,205*
Exports (f.o.b.)	38,609	36,330	36,330	42,821*	4,043	4,022	4,654*
Imports (c.i.f.)	25,297	24,179	24,179	24,686*	2,067	2,085	2,450*
Yen-Dollar Exchange Rate							
Tokyo Spot Market (end of period)	Y219.90	Y235.00	---	---	Y233.60	Y234.00	Y232.20
U.S.-Japan Trade							
Trade Balance	-15,789	-16,778	-16,778	-19,289	-2,067	-1,931	-1,721
Exports (f.a.s.)	21,823	20,966	20,966	21,894	2,005	2,095	2,085
Industrial Supplies	8,983	9,173	9,173	8,734	795	797	875
Food and Feed	5,896	4,971	4,971	5,555	515	535	437
Capital Goods	4,767	4,434	4,434	5,116	474	555	567
Consumer Goods	1,318	1,356	1,356	1,394	121	111	112
Imports (Customs)	37,612	37,744	37,744	41,183	4,071	4,025	3,807
Automotive Products	12,950	12,890	12,890	14,919	1,380	1,399	1,443
Industrial Supplies	7,179	6,795	6,795	5,391	515	514	493
Consumer Goods	8,340	7,842	7,842	8,296	882	837	768
Capital Goods	8,589	9,530	9,530	11,896	1,224	1,219	1,045

*Preliminary

STATISTICAL SUPPLEMENT

Japanese Economic Indicators

(percentage change from year-earlier period unless otherwise indicated)

	1981	1982	January-November 1982	January-November 1983	September 1983	October 1983	November 1983
Discount Rate (end of period)	5.5%	5.5%	5.5%	5.0%	5.5%	5.0%	5.0%
Outstanding Money Supply	8.9%	9.2%	9.3%	7.3%	7.2%	7.2%	6.8%
Industrial Production	1.0%	0.3%	0.6%	2.9%	6.3%	8.2%	7.9%
Manufacturing Operating Rate	-4.6%	-2.9%	-2.9%	1.0%	3.7%	7.5%	7.1%
Number of Bankruptcies	-1.5%	-2.8%	-2.8%	11.4%	24.1%	13.1%	17.7%
Residential Construction Starts	-9.2%	-0.5%	-0.7%	-1.5%	-3.7%	-2.0%	-1.6%
Job Openings to Applications (ratio)	0.68	0.61	0.61	0.59	0.59	0.60	0.63
Nominal Wages	5.3%	4.5%	5.1%	3.6%	3.5%	3.3%	2.7%
Labor Productivity	2.4%	1.0%	1.8%**	2.8%**	6.8%	n.a.	n.a.
Wholesale Prices	1.4%	1.8%	1.9%	-2.2%	-3.2%	-4.0%	-3.7%
Consumer Prices	4.9%	2.7%	2.7%	1.8%	0.7%	1.4%	1.8%
Yen-Based Export Prices	1.2%	3.9%	4.3%	-6.2%	-6.6%	-8.6%	-6.8%
Yen-Based Import Prices	1.6%	7.9%	7.9%	-7.7%	-10.6%	-15.0%	-14.2%

**Through September of each year only.

For Japan's most recent GNP figures, see JEI Report No. 1B, January 6, 1984.

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JAPAN · ECONOMIC · INSTITUTE

JEI

REPORT

NO. 9A

March 2, 1984

U.S.-JAPAN COMPETITION IN ROBOTS: AN UPDATE

Summary

Although American companies pioneered the robotics field, Japanese manufacturers have become the production leaders. Support from factory managers for the introduction of robots plus products tailored to simple, practical applications have enabled Japanese robot makers to build a broad base of customers. U.S. robot producers have been stymied in their efforts to expand the user market by management resistance to this form of automation as well as by the recession. These constraints have not kept new American competitors from crowding into the market. Many of these newcomers have tied up with Japanese makers, providing themselves with low-cost entry into the domestic robotics business and giving their offshore partners quick market access.

Widening Production Gap

Although robots have been manufactured in the United States for a quarter century and in Japan for 16 years, studies of the competitive position of the two countries' industries continue to be handicapped by the absence of a commonly accepted definition of this industrial device. The Robot Institute of America (RIA) -- a trade association of robot manufacturers, distributors, peripheral equipment suppliers and corporate users -- defines a robot as a "reprogrammable, multifunctional manipulator designed to move material, parts, tools or specialized devices through variable programmed motions for the performance of a variety of tasks." The RIA's Tokyo counterpart, the Japan

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Industrial Robot Association (JIRA), uses a broader definition, one that includes manipulators operated by humans and "dedicated" or non-programmable equipment.

Different robot classifications also hinder international comparison. JIRA categorizes robots in terms of their operating systems. This procedure results in six types of robots, two of which -- manual manipulators and fixed sequence robots -- are not considered robots in the United States. The other four are described in different terms here, yielding a match-up between variable sequence robots and pick-and-place robots, playback robots and programmable robots, numerically controlled robots and computer-controlled robots, and intelligent robots and sensory robots.

A more frequently used classification in this country, though, is one based on the robot's control mechanism. It differentiates between nonservo-controlled robots, which are only capable of straight-line movements -- up-down, left-right, in-out, and servo-controlled robots, which can be programmed to any position within their operating range or can perform point-to-point operations. Found in the United States as well is a classification system that divides robots by their principal end uses or applications, including materials handling, machine loading and unloading, spot and arc welding, spray painting and coating, and assembly.

Definitional and classification problems notwithstanding, there is no question that Japanese robot manufacturers are outproducing their American competitors across the board. The Robot Institute of America pegged U.S. production of robots in 1982 at 1,601 units valued at $195 million, up from 1,269 units costing $155 million the year before and a 1980 output of $101 million. Using its broader definition, the Japan Industrial Robot Association calculated that in-country production hit 24,782 devices in 1982 worth Y148.4 billion ($596 million), compared with a year-earlier outturn of 22,069 units tagged at Y107.8 billion ($486.7 million) and 1980 results of 19,873 units valued at Y78.4 billion ($345.9 million). Switching to the American definition of robots does not change the observation that Japan is pulling ahead of the United States since, on this basis, Japanese robot production climbed from 4,493 units worth Y49.3 billion ($217.3 million) at the start of this decade to 14,937 units costing nearly Y118 billion ($493.6 million) two years later.

The result of this widening production gap is clear cut: the number of programmable robots in operation in Japan dwarfs the U.S. robot population. According to a recent U.S. International Trade Commission (ITC) study of the robotics industry, Japanese manufacturers had installed 31,900 robots by the end of 1982, more than tripling their 1978 base. American companies, in contrast, expanded their robot usage two-and-a-half times over this five-year period, but they still had only 7,200-plus units in operation at year-end 1982. The U.S. tally, however, was higher than West Germany's, the European leader with some 3,500 robots in operation.

Lagging U.S. Demand, Buoyant Japanese Market

The robotics business has expanded not only quicker in Japan than here but also at a faster pace than JIRA thought possible in the late 1970s. Year

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after year the trade association has come up short on its market forecasts. Industry analysts in the United States have had the opposite problem. Sales projections made in the late 1970s have been at least two years off the mark and sometimes five years off base, as the explosive growth rates forecast then for the first part of the 1980s have failed to materialize. Recent estimates place the 1982 domestic robot business somewhere between $175 million and $195 million and the 1983 market in the neighborhood of $240 million. But even these scaled-back numbers may be on the high side, the ITC concluded after surveying U.S. manufacturers, traders and buyers last year for its robotics study (see Table 1).

The recession-triggered slump in U.S. capital spending has obviously curbed robot sales in recent years, but this damper, important as it is, does not alone explain why the robotics market in the United States has failed to live up to its advance billing or why American business lags behind Japanese industry in the use of robots. Other, more fundamental forces, are at work. The one U.S. vendors come back to time and again is lack of management support for the introduction of robots.

Manufacturing managers and engineers, they claim, do not fully appreciate the capabilities this form of automation can bring to the plant floor, while upper management does not understand the beneficial impact of robotics on corporate balance sheets -- increased productivity, reduced direct labor costs, lower material costs (because there are fewer rejects and better machining tolerances), decreased capital costs (since robots can be reprogrammed to respond to changes in manufacturing requirements), improved working conditions and safety standards, and better product quality. American robot suppliers maintain as well that top U.S. management, with its short-term outlook, demands an unreasonable rate of return or payback period on robotics equipment. Few robot applications, it is noted, have the one-year payback often required by high-level executives. Two to four years are more typical payback periods, depending on total robot costs (including accessories and installation), the nature of the application, and the number of shifts the equipment is used or the volume of production.

Management in Japan at all levels continues to be more supportive of the robotization of production processes than its American counterpart, argues Paul Aron of Daiwa Securities America Inc., the leading U.S. authority on the Japanese robotics industry. Japanese managers have been quick to recognize the wide applicability, flexibility and cost effectiveness of robots. To a large extent, this acceptance reflects the longer-range outlook of Japanese companies, but it has also been helped by the makeup of Japanese management. Unlike American managers, who tend to be specialists, Japanese managers often are production-oriented generalists who are more comfortable with the changes brought about by robots.

While management support has been crucial, Mr. Aron also credits the large number of robots in use in Japan to that country's labor practices. The reaction of Japanese workers to the introduction of robots has gone beyond mere acquiescence to active acceptance, in part because robots have been used most extensively for jobs that humans find monotonous, physically taxing and/or physically hazardous. More importantly, Japanese labor as a group has not been threatened with the prospect of automation-related layoffs because the large corporations that have been the major users of robots are willing to assume responsibility for job retraining. In addition, employees in Japan have an incentive to welcome robots: their semiannual bonuses are ultimately tied to the company's profits, and profits are generally boosted by the installation of robots.

Different attitudes toward the installation of robots in the United States and Japan do not singlehandedly explain why this form of automation has been more readily adopted in Japan. Industry observers point out in addition that American robot manufacturers have tended to concentrate on developing the most sophisticated products possible with the existing technology, in the process producing robots that are unnecessarily complex and expensive for most applications. Japanese makers, in contrast, built a big market by starting off with manual manipulators, fixed sequence robots and other relatively simple, low-cost devices targeted at practical applications and then shifting to more sophisticated equipment (see Table 2).

Partly as a consequence of this strategy, Japanese robot builders have developed a broader market for their product than their American competitors. The automotive industries of the United States and Japan were the early leaders in the introduction of robots. Car and truck manufacturers continue to be the dominant end market in this country, owning an estimated 50 to 60 percent of the 7,200 robots in operation at the end of 1982. In Japan, though, electric appliance and electronics firms moved ahead of motor vehicle producers as robot purchasers in 1980. Since that time, the electric/electronics industry has installed 30 percent-plus of the robots made in Japan each year, while automotive makers have bought just under 30 percent.

The home appliance industry is probably the second largest market for robots in the United States, but it is a distant second. Running third, apparently, are aerospace companies. Even further behind are makers of plastic products, heavy industrial and commercial equipment, and fabricated metal products -- industries that are important robotics users in Japan, accounting individually for roughly 5 to 10 percent of shipments in recent years. In fact, 12 Japanese industries, including precision equipment, nonferrous metals, steel and chemicals, installed 100 or more JIRA-defined robots in 1982.

While both American and Japanese robot manufacturers claim that current robot applications across all industries do not come close to tapping the technology and expertise builders have to offer, robots have been put to a wider variety of uses in Japan than here. The most striking difference between the two countries is the extensive use of robots in Japanese assembly operations. Assembly robots represent the largest category of shipments by value, anywhere from one-fifth to a third in recent years. In the United States, where assembly robots are just beginning to experience rapid growth, spot welding is the most pervasive application, followed by materials handling, machine loading and unloading, casting, and spray painting and coating. These handling and process applications are well established in Japan, too, but so are such other uses as arc welding and drilling and deburring.

Japanese robot manufacturers have also been more successful in convincing firms of all sizes to invest in robotics equipment. No more than a handful of large corporations, including the Big Three auto makers, is said to operate most of the robots in use in the United States. Big companies are still the major market in Japan as well, but the user profile is changing as more small- and medium-sized businesses install robots.

American observers often retort that this diversification has more to do with the availability of Japanese government financial incentives than skillful marketing by robot vendors. This charge has some validity, but it ignores the fact that direct government benefits for robot users only became available in 1980, years after the robotics industry had passed its infancy.

Under the 1978 "Special Measures Law Concerning the Promotion of Specific Machinery and Information Industries," buyers of robots can take extra depreciation in the first year. The added depreciation allowance, amounting to 13 percent of the purchase price in FY 1980 and FY 1981 and 10 percent as of FY 1982, can yield substantial tax savings on qualifying robots, generally limited to fairly sophisticated devices. Under another provision of this law, also effective from FY 1980, small- and medium-sized firms can obtain low-interest loans through the Small Business Finance Corp., a government-owned financial agency, to purchase robots to improve occupational safety. Central and local governments also provide interest-free loans for small- and medium-sized companies installing robots and other automated equipment to compensate for skilled labor shortages.

In a complementary 1980 move backed by the government, 24 robot makers, ten insurance companies and seven leasing firms formed the Japan Robot Leasing Co., Ltd. (JAROL) to help small- and medium-sized manufacturers that cannot afford to buy robots outright. Using low-cost loans from the government-owned Japan Development Bank as well as funds supplied by the Long-Term Credit Bank of Japan, Ltd., Industrial Bank of Japan, Ltd. and city banks, JAROL buys robots from participating builders and then leases them to qualified buyers on terms more advantageous than those offered by private leasors or large robot manufacturers. Equally important, JAROL provides systems engineering and consultant services to its clients.

New Makers Jump into the Japanese Market

The structure of the Japanese robotics industry has changed considerably in recent years. In the late 1970s, the 140 or so companies making robots were, with a few exceptions, firms listed on the first section of the Tokyo Stock Exchange. The market leaders included some of Japan's biggest corporations -- corporations that generated only a small fraction of their total revenues from robot sales. The number-one maker was Kawasaki Heavy Industries, Ltd., a licensee of the leading American builder, Unimation Inc., which had secured the top position by dominating the Japanese market for spot welders, the first widespread robotics application. Occupying second place was Yaskawa Electric Manufacturing Co., Ltd., the early Japanese leader in arc welders. Hitachi, Ltd. was a close third with its line of robots for multipurpose applications, arc welding and spray painting, followed by Fujitsu Fanuc Ltd., a builder of machine loading and unloading robots. Among the second-tier suppliers were three makers of spray painting robots -- Kobe Steel, Ltd., Mitsubishi Heavy Industries, Ltd. and Tokico, Ltd. -- and two producers of arc welders -- Shin Meiwa Industry Co., Ltd. and Nachi-Fujikoshi Corp. Aida

Engineering, Ltd. and Dainichi Kiko Co., Ltd., both manufacturers of robots for materials handling applications, were also in this group of contenders.

By 1983, new entrants, often small businesses, had swelled the ranks of Japanese robot manufacturers to an estimated 250 companies. Among these makers are a large number of companies -- perhaps as many as 80 -- that only build robots for installation in their own plants and those of subcontractors. Auto makers are a prime example of this type of builder, although some big electronics companies are also on the list.

Other firms that initially developed robots for in-house use have since discovered that there is a commercial market for their equipment. These new vendors include several large electronics manufacturers -- most notably, Matsushita Electric Industrial Co., Ltd., Mitsubishi Electric Corp. and NEC Corp., which have emerged as leading suppliers of assembly robots. Competing with them in this application market are entrants from such disparate industries as precision equipment (Sankyo Seiki Manufacturing Co., Ltd. and Suwa Seikosho Co., Ltd.), industrial fasteners (Nitto Seiko Co., Ltd.), materials handling (Hirata Industrial Machineries Co., Ltd.), and writing instruments (Pentel Co., Ltd. and Sailor Pen Co., Ltd.).

Faced on all sides by new competitors, Japan's traditional robot leaders have gone on the offensive. Hitachi has added four assembly robot models to its lineup of multipurpose, arc welding and spray painting robots. Fanuc has expanded its series of machine loading and unloading robots and introduced three types of assembly robots plus a line of general-purpose robots for applications including arc and spot welding. Yaskawa, which has lost market share in the arc welding market to established makers like Hitachi, Shin Meiwa and Osaka Transformer Co., Ltd. as well as to newcomers such as Matsushita Electric, has taken a different tack, upgrading its products with new sensors and controllers. Kawasaki Heavy Industries, challenged in the spot welding market by Mitsubishi Heavy Industries, Nachi-Fujikoshi and several other makers, has adopted a similar strategy of product enhancement; in addition, it is pushing sales of other products, particularly assembly robots.

Strategies such as these have helped old-guard robot manufacturers to expand production and sales but not necessarily to maintain their earlier market positions. A Nihon Keizai Shimbun survey conducted over the past three years underscores how fluid production rankings have become. In the 1982 business year (generally the period ending in March 1983), Matsushita Electric turned out to be the top producer, although most of its output was apparently used in-house or went to subsidiaries and subcontractors. Hitachi was estimated to be the number-two manufacturer, followed closely by Kawasaki Heavy Industries, Yaskawa and Fanuc. Matsushita Electric was expected to hold on to its new leadership position in the 1983 accounting period, but Fanuc was projected to move into the second spot, ahead of Hitachi. By fiscal 1985, the survey also suggested, these three manufacturers could be in a fight for the number-one ranking, with Dainichi Kiko, Mitsubishi Electric and Kobe Steel contesting Kawasaki Heavy Industries and Yaskawa for the other top positions.

Suppliers Crowd into the U.S. Marketplace

The U.S. robot industry, even more than its offshore competitor, has been swept by structural change in the past five years. As recently as the start of this decade, Unimation, then a Condec Corp. subsidiary, and Cincinnati Milacron Inc., the nation's top machine tool maker, ruled the small American robot market. Unimation's leadership position was built on the success of its advanced, multipurpose Unimate series of robots, which have found widespread use as spot welders and in handling applications. Its market role was further enhanced in 1979 with the commercial introduction of the Puma series, described as the first robot line designed for close-tolerance assembly work and small parts handling, and the later announcement of a portable arc welder. For its part, Cincinnati Milacron, which only entered the robot market in 1977, quickly rose to the number-two spot on the strength of its sophisticated T_3 models -- a line used in a wide variety of applications, including spot and arc welding, machine loading and unloading, parts handling and assembly.

Rivals to Unimation and Cincinnati Milacron in the late 1970s numbered no more than ten companies. The third-largest maker was Prab Robots, Inc., which first made a name for itself manufacturing low-cost, nonservo-operated handling robots and then moved into the high-technology area with the acquisition of the Versatran line from AMF Inc. Prab's competition in the market for medium-technology handling robots came from the number-four U.S. manufacturer, Copperweld Robotics Inc. (then Auto-Place, Inc.), a Copperweld Corp. unit. Rounding out the list of main players in the American robotics market were two distributors of imported robots: ASEA Inc., which sold its Swedish parent's line of versatile, high-performance robots, and DeVilbiss Co., a subsidiary of Champion Spark Plug Co., which marketed spray painting robots made by Trallfa Nils Unddrhaung of Norway.

The prospect of snowballing robot sales in the 1980s altered this face of the U.S. industry by attracting a new breed of competitor -- small startup firms, generally backed by venture capital. Many of these newcomers had their eye on the high-technology end of the business, like Automatix Inc., a Burlington, Massachusetts maker of turnkey robotics systems for small parts assembly, inspection and arc welding; Intelledex Inc. of Corvallis, Oregon, which produces high-performance assembly robots for use in the electronics industry; and Hebron, Ohio-based Advanced Robotics Corp., a maker of arc welders. Other startups have targeted the market for less sophisticated equipment, including American Robot Corp., a Pittsburgh, Pennsylvania company making robots for light applications, including assembly, and International Robomation/Intelligence of Carlsbad, California, a manufacturer of "affordable" robots for simple handling applications. Although in the minority, some newcomers have developed robots for a range of applications, such as Cybotech Corp., a joint venture between Ransburg Corp. and French auto maker Regie Nationale des Usines Renault, which turns out products for arc welding, spray coating and parts inspection.

Waiting in the wings while the startups made their move into the robotics market were a number of potentially more formidable American competitors -- big corporations like General Electric Co., Westinghouse Electric Corp., International Business Machines Corp., Bendix Corp., GCA Corp., United Technologies Corp. and General Motors Corp. All of these companies had robotics development programs underway. IBM and GM had gone a step further, manufacturing robots for in-house use, while Bendix and GCA had developed products for the commercial market. But when these corporate giants decided to jump into the market in 1981 and 1982, their admission tickets, in most cases, were robots sourced from foreign, mainly Japanese, builders.

GE's bid to become a major player in the U.S. robotics market is centered on the Hitachi lineup of multipurpose, arc welding, spray painting and assembly robots. These products are supplied under a seven-year pact signed in mid-1981 that gives the American company manufacturing rights in addition to nonexclusive worldwide marketing rights. Filling out the GE line are an assembly and parts handling robot made by Italy's DEA S.p.A. and equipment from Volkswagenwerk AG for materials handling and process applications.

Not to be outdone by its rival in the electric machinery market, Westinghouse also turned to multiple foreign sources of supply, concluding nonexclusive marketing and licensing pacts for arc welders with Mitsubishi Electric and Komatsu, Ltd. in the spring of 1982 after earlier initialing the same type of agreement with Italy's Olivetti Group for an assembly robot. These models supplement Westinghouse's own line of multipurpose robots.

Bendix and GCA have both tried to carve out positions in the markets for materials handling and assembly robots by combining their own products with Japanese-made equipment. Bendix is tied up with Yaskawa under a five-year nonexclusive sales agreement signed in late 1982, while Dainichi Kiko is supplying GCA, its exclusive North American distributor since early 1982. For its part, IBM has zeroed in on the expanding market for assembly robots in the electronics, appliance, cosmetics and automotive industries. Through a 1982 supply pact with Sankyo Seiki, the data processing equipment giant is offering two low-cost robots for simple assembly and materials handling operations. Complementing these products is the commercial version of IBM's in-house robot, which can handle more complex light assembly jobs than the imported equipment.

But the pairing that has permanently changed competitive conditions in the American marketplace is the mid-1982 tie-up of General Motors and Fanuc. Their joint venture, GMF Robotics Corp., offers perhaps the broadest product line of any U.S. vendor: robots for machining operations, assembly and special-purpose applications like arc and spot welding and parts handling that are made by Fanuc, plus a GM-designed painting robot. More importantly, GMF has quickly become the leading supplier to GM, the biggest robot user in the United States. For Unimation, Cincinnati Milacron, DeVilbiss and other domestic robot builders that have long counted on big sales to the auto maker, this turn of events has been a major blow. Few believe GM denials that GMF has a lock on its robot business.

Big corporations are not alone in tying up with offshore producers for robot supplies or technology. A number of startup firms have gone this route to fill out their product lines. Automatix has been licensed by Hitachi to make a multipurpose robot; it also imports an assembly robot from Hirata Industrial that is integrated into turnkey systems. Advanced Robotics markets a Nachi-Fujikoshi arc welder in addition to its own two models, while Cybotech recently agreed to handle a painting robot manufactured by Tokico. Moreover, at least two established robot makers -- DeVilbiss and Copperweld Robotics -- have nonexclusive marketing pacts with Japanese builders. DeVilbiss is currently offering an arc welder made by Matsushita Electric, but later this year it plans to introduce another model, as well as a materials handling robot supplied by an unnamed Japanese manufacturer. For its part, Copperweld Robotics has been selling a line of Nachi-Fujikoshi robots for assembly and materials handling applications.

Other American companies have linked up with Japanese robot producers to diversify or expand their primary line of business. For example, Hobart Brothers Co., a Troy, Ohio maker of welding products, sells Yaskawa's arc welding robot, while metalworking equipment manufacturer Minster Machine Co. of Minster, Ohio distributes parts handling robots imported from Orii Corp. In addition, Fairchild Industries Inc.'s VSI Automation division has added a Nitto Seiko assembly robot to the line of Japanese-made machine tools it markets.

For these companies as well as the others, sales and/or licensing pacts with Japanese builders have an obvious advantage over in-house development of robotics technology: they provide a low-cost way to break into the business or to expand an existing market stake. Not too surprisingly, executives of many old-line robot companies charge that all these firms are doing by taking "shortcuts" into the robotics field is helping Japanese manufacturers establish beachheads here. Without a hand from GE et. al., they add, potential Japanese competitors would be saddled with the expensive and time-consuming job of setting up American distribution, technical support and service networks.

In fact, few Japanese robot manufacturers have tried to market here on their own. Those that have, like Mitsubishi Heavy Industries with its spray painting and coating robot, generally use the American subsidiaries of Japanese trading companies. Most builders instead have gone the dual distribution route, selling through a U.S. marketer and offering products under their own brand. Hitachi, Nachi-Fujikoshi, Hirata Industrial, Tokico and Shin Meiwa (which sells its arc welder through Waukesha, Wisconsin-based Generac Corp.) have adopted this strategy, for example. Other major makers rely exclusively on their tie-up partner for American sales, like Matsushita Electric (DeVilbiss), Dainichi Kiko (GCA) and Mitsubishi Electric (Westinghouse). Yaskawa has taken a slightly different approach, marketing through five different U.S. companies including Bendix and Hobart Brothers.

U.S. Market Too Crowded?

The influx of new producers into the U.S. industry over the past five years has boosted the number of companies manufacturing robots to over 50. Another 30 or so firms are marketing products imported from abroad. With the recession limiting demand across all major application markets, the flood of new product offerings had a predictable result: prices dropped and profits evaporated. No manufacturer was immune to these developments, but industry newcomers, weighted down by heavy initial development, manufacturing and marketing expenses, were particularly hard hit.

Poorer-than-expected market conditions did produce some casualties. Last fall, Bendix dropped out of the manufacturing end of the business, although it will continue to carry the Yaskawa line. Late in the year, Copperweld put its robotics subsidiary up for sale, in effect ending its marketing agreement with Nachi-Fujikoshi. Recently, Nordson Corp., an Amherst, Ohio maker of painting and coating robots that also distributed a line of Yaskawa sealing robots, decided to pull out of the market. In addition, ownership of Unimation changed hands in February 1983 when Westinghouse took over the industry leader. Still, the major shakeout most industry watchers had predicted never occurred.

Even with the resumption of strong sales, analysts say, the U.S. robot market cannot support all the companies now jockeying for position. Consolidation might be slow, they add, but major dropouts are inevitable. Who will the survivors be? Certainly, most people agree, the companies that currently dominate the industry -- Unimation, Cincinnati Milacron, Prab and fast-rising GMF, as well as DeVilbiss and ASEA, both of which have become onshore manufacturers.

Other successful companies, it is generally predicted, will come from one of three groups of suppliers. The first consists of high-technology niche companies like Automatix that offer "value added" turnkey systems. Another set of players will be drawn from the ranks of firms now positioning themselves in the fledgling factory automation field -- GE, Westinghouse, IBM and other companies that have deep financial pockets, sophisticated product and process technology, systems and applications expertise, and marketing skills. The final group of competitors will be low-cost, high-volume manufacturers. Most industry watchers assume that these makers will be Japanese, but the question is, which ones.

For further information, contact Susan MacKnight.

The opinions expressed in this report are those of the author and do not necessarily represent those of the Japan Economic Institute.

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Table 1: U.S. Apparent Domestic Consumption of Robots, 1979-83*

(value in thousands of dollars; quantity in units)

	1979	1980	1981	1982	1983**
Value					
Shipments	$28,077	$64,059	$113,385	$142,845	$168,654
Exports	8,909	20,766	23,309	20,322	33,738
Imports	3,751	4,225	10,620	15,097	28,946
Trade Balance	5,158	16,541	12,689	5,225	4,792
Apparent Domestic Consumption	22,919	47,518	100,696	137,620	163,862
Ratio of Exports to Consumption	38.9%	43.7%	23.2%	14.8%	20.6%
Ratio of Imports to Consumption	16.4%	8.9%	10.5%	11.0%	17.7%
Quantity					
Production	614	1,118	1,993	2,585	3,234
Exports	173	340	413	428	631
Imports	66	73	156	376	999
Trade Balance	107	267	257	52	-368
Apparent Domestic Consumption	507	851	1,736	2,533	3,602
Ratio of Exports to Consumption	34.1%	40.0%	23.8%	16.9%	17.5%
Ratio of Imports of Consumption	13.0%	8.6%	9.0%	14.8%	27.7%

*Data were derived from International Trade Commission questionnaries sent to U.S. producers and importers. Responses were received from 21 producers that represent more than 90 percent of the value of U.S. shipments and from 13 importers that account for virtually all U.S. imports.

**July-December 1983 data were estimated by producers.

Source: U.S. International Trade Commission, Competitive Position of U.S. Producers of Robotics in Domestic and World Markets (USITC Publication 1475), December 1983.

Table 2: Japan's Production of Robots, 1979-82

(value in thousands of dollars*; quantity in units)

	1979	1980	1981	1982
Value				
Manual Manipulators	$ 8,835	$ 12,362	$ 13,676	$ 11,857
Fixed Sequence Robots	86,753	102,743	108,583	73,636
Subtotal	95,587	115,105	122,259	85,493
Variable Sequence Robots	33,568	41,993	65,285	77,438
Playback Robots	30,360	69,619	151,392	214,788
Numerically Controlled Robots	7,963	96,119	72,912	102,742
Intelligent Robots	16,875	9,530	48,526	78,623
Subtotal	88,765	217,261	338,116	473,592
Peripheral Equipment and Parts	9,227	13,504	28,340	36,892
Total	193,579	345,870	488,714	595,977
Quantity				
Manual Manipulators	1,051	1,942	964	1,197
Fixed Sequence Robots	10,721	13,438	12,923	8,648
Subtotal	11,772	15,380	13,887	9,845
Variable Sequence Robots	1,224	1,343	2,478	4,311
Playback Robots	662	2,027	3,928	6,672
Numerically Controlled Robots	89	992	1,138	2,001
Intelligent Robots	788	131	638	1,953
Subtotal	2,763	4,493	8,182	14,937
Total	14,535	19,873	22,069	24,782

*The following average annual exchange rates, which reflect the midpoint on the Tokyo spot foreign exchange market, were used to convert the yen production figures: 1979, Y219.14; 1980, Y226.75; 1981, Y220.54; and 1982, Y249.05.

Source: Japan Industrial Robot Association

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JAPAN'S SATELLITE DEVELOPMENT PROGRAM

Summary

Japan's applications satellite program, which only recently entered the operational phase, has become a flash point in bilateral relations. Reagan administration trade policymakers claim that Tokyo has shut the door on purchases of foreign spacecraft as part of an effort to help Japanese manufacturers bridge the technology gap with American aerospace companies. Japan has refused to buy U.S. satellites, but government officials flatly reject Washington's contention that the Japanese satellite program is commercially oriented. They also point out that the issue is not as straightforward as U.S. trade negotiators suggest since the leading American satellite builders have design authority on Japan's projects and are the principal subcontractors.

Japan's Satellite Program Comes Under Fire

Reagan administration trade policymakers have made Japanese industrial policy a moving target of attack, zeroing in on one product, then narrowing in on another. Recently, their focus has shifted from semiconductors and machine tools to satellites. This new target popped up last summer when Nippon Telegraph and Telephone Public Corp. (NTT) representatives, on a buying mission here, expressed interest in acquiring software for communications satellites -- key links in the nationwide integrated communications/information network Japan's domestic telecommunications monopoly plans to construct by the end of this century.

U.S. aerospace companies, the world leaders in satellite technology and the dominant suppliers of communications satellites, parried these feelers, asking why NTT did not buy the satellites themselves. The response -- that Japan's space development program precludes the purchase of foreign satellites -- opened a new front in the Reagan administration's campaign against the trade-distortive effects of Tokyo's industrial policy. Secretary of Commerce Malcolm Baldrige unsuccessfully pressed former International Trade and Industry Minister Sosuke Uno last September for changes in Japan's satellite purchasing practices. United States Trade Representative William E. Brock raised the issue with Foreign Minister Shintaro Abe the following month, again to no avail. Subsequent discussions at the subcabinet level have also produced a standoff.

At first glance, Japan's exclusionary satellite purchasing regulations appear to be a government procurement issue. While often portrayed in this context, U.S. trade officials insist that the industrial policy framework is the appropriate one. By not permitting open international bidding for satellite contracts, it is argued, the Japanese government is shielding domestic manufacturers until they can develop and master the product and process technologies to compete in the world satellite market with American and European aerospace companies. Reagan administration trade negotiators add as well that their opposition to Japan's satellite development policy extends to all types of spacecraft -- scientific, meteorological, earth observation, geodetic, broadcast and communications, not just the latter, although they admit that communications satellites represent the high-growth segment of the market. The Japanese side, Washington says, recast the issue in terms of communications satellites alone.

The Japanese government does not deny that its space policy requires a domestic company to be the prime contractor on satellite projects. Spokesmen do, however, challenge Washington's version of the goals of the space program in Japan. The primary objective of Japanese space policy, they note, is to strengthen the nation's security in areas like communications, weather forecasting and remote sensing. Other basic goals include obtaining economic and scientific benefits through the exploitation of space and promoting international cooperative activities, especially with the National Aeronautics and Space Administration (NASA). These aims, it is emphasized, closely parallel those of the U.S. space program.

Commercial development is not a primary target, officials maintain. It is not even a secondary objective, they add, pointing to the big lead American companies have in satellite and launch vehicle technologies and the limited funds available in Japan for space development. In fact, at Y113.4 billion ($493 million at Y230=$1.00) in FY 1983, projected Japanese government funding of space activities is just a fraction of U.S. spending, which amounted to roughly $10.6 billion in FY 1982 for both civilian and military programs or $5.5 billion excluding the Department of Defense's space budget.

Moreover, given Japan's budgetary constraints, government support for the space program is unlikely to increase beyond the 2.5 to 4.5 percent rate of recent years. NTT, the Japan Broadcasting Corp. (NHK) and some other government-affiliated satellite users have started to underwrite part of the

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cost of Japan's space program, but their combined contribution -- an estimated Y19 billion ($82.6 million) in the current fiscal year -- bridges only a tiny portion of the space spending gap between Japan and the United States. Even adding space-related research and development expenditures by the private sector is no help since this funding is extremely limited, totaling just Y6.2 billion ($27 million) in 1981.

Japan's small budget for space activities has drawn increasing criticism from its business community. Industry representatives argue that, at present and projected near-term funding levels, the government will not have available the large-capacity communications satellites that financial institutions, manufacturers and distributors will need in the late 1980s for high-speed domestic data transmission or the vehicles to launch big communications payloads by that time. With the odds stacked against a major acceleration in the nation's space program, they too have started to lobby the government to allow NTT to buy American-made satellites and foreign launch services.

This report will review the current status of Japan's satellite program and the direction in which it is moving, particularly in the area of communications satellites. It will also outline what these efforts imply for competition in the international satellite market. The changes the Japanese government has proposed in its space policy will be presented in the last section, along with an indication of whether these suggested modifications can placate domestic critics and, more importantly, avert a collision between Washington and Tokyo over satellite procurement.

Playing Catch-up

Responsibility for space development work in Japan is divided between two primary organizations. The Ministry of Education's Institute of Space and Astronautical Science (ISAS) is in charge of activities in the scientific field, including the development of scientific satellites and the vehicles to launch them. Its spacecraft are built by NEC Corp. and sent into orbit aboard launch vehicles manufactured by Nissan Motor Co., Ltd. from the ISAS Kagoshima Space Center on the southern tip of Kyushu.

R&D work on communications, broadcast and other applications satellites is performed by the National Space Development Agency (NASDA). This government-affiliated organization, which falls primarily under the jurisdiction of the Science and Technology Agency -- not, as commonly assumed, the Ministry of International Trade and Industry, also develops launch vehicles for applications satellites and conducts launches from its Tanegashima Space Center on the small southern island of the same name. Prime contractors for NASDA spacecraft are NEC (earth observation satellites), Mitsubishi Electric Corp. (MELCO) (communications satellites) and Toshiba Corp. (broadcast satellites). Mitsubishi Heavy Industries, Ltd. (MHI) is responsible for vehicle integration of NASDA's rockets.

Since Japan's first satellite was sent into orbit in 1970, NASDA and ISAS have launched a total of 30 spacecraft, 26 of them successfully (see Appendices 1 and 2). ISAS has successfully launched 14 scientific satellites whose payloads have evolved from relatively simple ones to sophisticated systems. In the process, the institute's three-stage, solid-propellant M rocket, now in the fourth generation, has established a track record as a low-cost, reliable vehicle for launching 300-kilogram-class scientific payloads into circular orbit. In the applications field, NASDA's 12 successfully orbited satellites (which include three launched by NASA from Cape Canaveral) have also been marked by steady technological advancement. So, too, have its N series of three-stage launch vehicles, currently capable of lifting 350 kg class payloads into hard-to-achieve geostationary orbit.

This technological headway in scientific and applications satellites and launch vehicles has been the product of two different blueprints. From the start, ISAS went the independent technology development route. NASDA, in contrast, adopted a strategy that has proved highly efficient in a number of other Japanese industries. It involved teaming up Japanese manufacturers with U.S. aerospace companies -- notably, Hughes Aircraft Co., Ford Aerospace and Communications Corp. (FACC) and General Electric Co. in satellites and McDonnell Douglas Corp., Rockwell International Corp., Thiokol Corp., TRW Inc. and Aerojet TechSystems Co. in launch vehicles -- to acquire technologies that would be too expensive and time consuming for Japan to develop on its own, while at the same time funding R&D work in areas where domestic firms have an edge, like electronics.

Although cost and time considerations left Japan little choice but to follow this type of plan in applications satellites and launch vehicles, the parallel development strategy has had a number of drawbacks. For one, continued dependence on American technologies in critical satellite and launch vehicle areas, either through technical assistance, imports of "black boxes" or licensed production, has limited the freedom of Japanese companies to compete in the international space market. Perhaps more importantly, a push to replace imported expertise with domestically developed technology has left satellite users with equipment that is often not state of the art. A look at Japan's communications satellite program makes this clear.

Communications Satellites - Japan's first two communications satellites intended for operational service were launched in 1983. The CS-2 spacecraft, identical in design, were built by the Mitsubishi Electric-Ford Aerospace team, the same companies responsible for the experimental CS satellite, launched for NASDA by NASA in 1977. The CS-2 and CS share a common basic design, which was prepared by Ford Aerospace for Mitsubishi Electric. This design, however, was partially modified by the partners, working in conjunction with NTT, the CS-2's main user, to reflect some of the advances in satellite technology since the CS was planned and to incorporate special features sought by the telecommunications monopoly, which covered 60 percent of program costs.

Even with these changes, the CS-2 is less sophisticated in terms of capacity and variety of services than the communications satellites currently in operation in the United States and Europe, although it is the world's first satellite to use the high-capacity 30/20 GHz frequency band. For example, Europe's recently operational ECS-1 communications satellite can relay 12,000 telephone circuits and two television channels and can provide telephone, telex, television and specialized business services. The CS-2 satellite, in contrast, has a switching capacity of just 4,000 telephone circuits. Moreover, it is currently used only for voice transmission, although it has color television and data transmission capabilities. Still, Mitsubishi Electric and its Japanese subcontractors gained some much-needed design experience working on the CS-2, as did NTT, which was in charge of the communications antennas and transponders (a satellite's receive-transmit links).

The CS-2 project also allowed Japanese companies to acquire the skills to manufacture key subsystems for the communications payload, since MELCO built the satellite's communications antennas and NEC made its transponders. Even more valuable was the expertise Mitsubishi Electric acquired in systems integration work. Ford Aerospace assembled the first CS-2 spacecraft at its Palo Alto, California facilities. In addition, it did the integration work on this satellite, verifying all the system's interfaces, particularly electrical connections. The American company also performed the environmental tests, which establish that the satellite should survive and work under the harsh conditions to which it is likely to be exposed during launch and on station. On the second CS-2 satellite, however, MELCO performed these three critical jobs with FACC's assistance. This transfer of responsibility helped to raise the Japanese content of the two satellites to 62 percent.

Built at a cost of Y25 billion ($108.7 million), the two CS-2 spacecraft are designed to provide public communications services with remote Japanese islands and to maintain communications during national disasters and other emergencies. Since these operations will leave many circuits idle under normal conditions, Japan's business community has lobbied the Ministry of Posts and Telecommunications (MPT) to allow NTT to use part of the otherwise idle capacity to offer domestic commercial satellite services.

This campaign has been unsuccessful -- at least up to now. Six of the eight communications channels on the first satellite have been reserved for public communications. One of the remaining channels has been turned over to the National Police Agency, while the other has been jointly assigned to the Ministry of Construction, MPT, the Fire Defense Agency, the Japanese National Railways and Japan's electric utilities. No decision has been made about how the second CS-2 spacecraft, now an in-orbit spare, will be used, so it is still possible that NTT will be permitted to start domestic commercial satellite communications services.

If NTT does not get the go-ahead this time, potential business customers will have to wait at least until 1988 for the arrival of nationwide satellite services. That is when Japan's next generation of communications satellites is now scheduled to be launched. As presently envisioned, though, the two CS-3 satellites, even if dedicated to commercial use, will be inadequate to meet projected demand since each will provide a relay capacity of only 6,000 circuits.

What this project does offer is the opportunity for prime contractor Mitsubishi Electric and its Japanese subcontractors to develop additional satellite design and manufacturing skills -- again with the help of Ford Aerospace and NTT, which is underwriting 70 percent of the program's anticipated Y33 billion ($143.5 million) cost. How much progress the Japanese participants are expected to make is indicated by the 80 percent domestic-content target for the CS-3 spacecraft.

The design and manufacturing technologies Japanese companies master on the CS-3 program could be further refined if two communications satellite projects now in the planning stage at NASDA materialize. The JECS experimental spacecraft, tentatively scheduled for launch in 1990, will be used to acquire the technologies needed for the generation of communications satellites after the CS-3, while through the ETS-VI satellite, currently penciled in for launch in 1992, NASDA hopes to perfect the basic technology for the bus systems for large-capacity communications and broadcast satellites. The ultimate objective of the two proposed projects, though, is for Japanese manufacturers to develop a high-capacity satellite for NTT's communications/information network based entirely on domestic design and manufacturing technologies.

Other Applications Satellites - While in its communications satellite program Japan has apparently decided to push the development of domestic technologies rather than respond to the private sector's calls for state-of-the-art equipment, a different philosophy seems to prevail in broadcast satellites. Here, at least for now, advancements in Japanese design and manufacturing capability have taken a back seat -- albeit, an important one -- to the provision of service. As a result, Japan will be the first country in the world with a nationwide direct broadcast satellite system when the first of two BS-2 spacecraft goes into operation in May. This satellite will be used by the country's public broadcasting corporation, the underwriter of 60 percent of project costs, to provide two-channel color TV service, particularly in mountainous areas and remote islands that lack access to conventional television, and in urban environments where reception is hindered by tall buildings. The spacecraft, like the CS-2 satellites, will also be used to test new forms of satellite digital communications -- in this case, high-resolution television, digital audio sound, still picture programs, teletext and facsimile.

The BS-2, like the experimental BSE launched for NASDA by NASA in 1978, is designed and built by General Electric for prime contractor Toshiba. The Japanese company is responsible for the satellite's communications antennas and some components for other communications subsystems. Still, its contribution and that of other suppliers in Japan is expected to account for only 30 percent of the Y25 billion ($108.7 million) cost of the BS-2a satellite and its twin, the BS-2b, scheduled for launch in the summer of 1985. This balance, NASDA hopes, will tilt in favor of substantial domestic content on Japan's next two direct broadcast satellites, but with competing project proposals by Toshiba-GE and a NEC-RCA Corp. team still under consideration, space agency officials are reluctant to specify a figure for Japan's expected participation in the BS-3 program.

NASDA seems to be more optimistic about the ability of domestic contractors to develop and manufacture the next earth observation satellite largely on their own. The MOS-1, a marine observation satellite considered to be Japan's most advanced spacecraft to date, was designed by NEC, which drew on its work with Hughes on the country's two existing and one planned meteorological satellites. Moreover, Japanese companies, with some software technical support from foreign firms, are developing and making the satellite's major subsystems, including a three-axis attitude control unit and various radiometers. Most significantly, NEC is in charge of systems integration work on the spacecraft, which is slated for launch in the summer of 1986.

Partners or Competitors?

The increasing technical sophistication apparent in Japan's satellite development program is triggering some apprehension about the competitive intentions of Japanese manufacturers, particularly in the lucrative international market for communications satellites. Concern about a challenge in the systems market is premature, however. Japanese manufacturers do not now have the experience to design, develop and build the large-capacity, multiservice communications satellites that are today's norm. Moreover, they are not expected to gain this capability in the near future, primarily because the limited thrust of NASDA's current N-II launch vehicle restricts Japanese satellites to small payloads. The space agency's next-generation H-I rocket, presently scheduled for operational service in early 1988, will not eliminate this constraint. It will only be able to lift 550-kg-class payloads into geostationary orbit, still too small to meet current international requirements. The earliest Japan could have a high-thrust rocket available is 1990 -- and this is a long shot (see JEI Report No. 10B, March 9, 1984).

Although Japanese companies are currently not in a position to make and export competitive satellite systems, they will play an important role in the international market as subcontractors on multinational satellite projects and as exporters of auxiliary equipment like earth stations and dish antennas for direct TV broadcasting. In fact, Mitsubishi Electric and NEC already have lengthy track records as suppliers of subsystems and components for the international communications satellites owned and operated by the 109-member International Telecommunications Satellite Organization (Intelsat).

MELCO is a major subcontractor for Intelsat's current-generation V and V-A spacecraft, supplying prime contractor Ford Aerospace with the two earth-coverage communications antennas, the power control electronics and the telemetry and command digital units. For its part, NEC was a key subcontractor to Hughes for Intelsat's 12 earlier IV and IV-A satellites. It will repeat this role on the upcoming Intelsat VI series, designing and manufacturing several major components of the communications payload for prime contractor Hughes. NEC, in addition, is said to be the world's largest manufacturer of Intelsat earth stations.

Washington and Tokyo at Odds

The Reagan administration's call for international competition in Japanese satellite procurement comes at an awkward time for Tokyo, in part because its applications satellite program has only recently moved into the operational phase. In addition, telecommunications policies in Japan are on the verge of fundamental change. Following the recommendation of the Administrative Reform Council, the Ministry of Posts and Telecommuncations is now drafting a bill to open domestic communications services, now a NTT monopoly, to the private sector (see JEI Report No. 9B, March 2, 1984).

Apparently because of these factors, the Japanese government has found it difficult to respond to Washington's request. While Foreign Minister Abe told Ambassador Brock last October that Japan plans to continue to promote the development of satellites for use by government agencies, he left open the possibility that Japanese businesses would be allowed to buy foreign spacecraft after domestic telecommunications services are deregulated.

This is certainly not the response Washington wanted. For one thing, NTT, NHK and other government satellite users would still be unable to buy American satellites. In addition, while the bill to revise Japanese telecommunications laws is expected to be submitted to the Diet this month, the government does not know when domestic communications services will be opened to the private sector. Finally but perhaps most importantly, Foreign Minister Abe qualified Japan's willingness to allow private ventures to buy foreign satellites by adding they could do so as the need arose. This is a major qualification because the government is said to believe that business has no need for imported spacecraft, at least for now.

In subsequent bilateral discussions of this issue, Tokyo has come back time and again to the fact that American aerospace companies, far from being shut out of the Japanese satellite market, have been major players in the country's satellite development program. Government representatives have also reiterated that Japan must have a strong, independent foundation in space technologies if it is to collaborate with the United States and other countries on space-related research, such as the $8 billion manned space station for which the Reagan administration is seeking participation by Japan and other foreign partners. The only way Japan can gain the technical expertise to contribute to projects like this, it is stressed, is through a national space development program.

For further information, contact Susan MacKnight.

The views expressed in this report are those of the author and do not necessarily represent those of the Japan Economic Institute.

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Appendix 1: Japan's Applications Satellites

Name	Mission Objectives	Weight	Orbit	Launch Date	Launch Vehicle	Remarks
Communications/Broadcast Satellites						
Medium-Capacity Communications Satellite for Experimental Purposes (CS/Sakura)	Experiments with satellite communications systems using quasi-millimeter waves and developing techniques for operating satellite communications systems.	350 kg	Geostationary	December 1977	Thor-Delta (NASA)	Mission completed, but still operating.
Experimental Communications Satellite (ECS/Ayame)	Development of technologies for launching, tracking and controlling communications satellites, as well as experiments with millimeter waves.	130 kg	Geostationary	February 1979	N-I-5	Failed to achieve planned orbit.
Experimental Communications Satellite-2 (ECS-b/Ayame-2)	Same as ECS/Ayame.	130 kg	Geostationary	February 1980	N-I-6	Failed to achieve planned orbit.
Communications Satellite-2a (CS-2a/Sakura-2a)	Provide public communications services for remote islands and maintain communications during national disasters and other emergencies, as well as develop satellite communications technology.	350 kg	Geostationary	February 1983	N-II-3	In operation.
Communications Satellite-2b (CS-2b/Sakura-2b)	Same as CS-2a/Sakura-2a.	350 kg	Geostationary	August 1983	N-II-4	In operation.
*Communications Satellite-3a (CS-3a)	Expand communications services provided by CS-2 and advance technology for communications satellites.	550 kg	Geostationary	Early 1988	H-I-1	Design work started FY 1982; manufacturing and test phase to start FY 1985.
*Communications Satellite-3b (CS-3b)	Same as CS-3a.	550 kg	Geostationary	Summer 1988	H-I-2	Design work started FY 1982; manufacturing and test phase to start FY 1985.
Medium-Scale Broadcasting Satellite for Experimental Purposes (BSE/Yuri)	Image and audio transmission tests by satellite and development of techniques for operating satellite broadcasting systems.	350 kg	Geostationary	April 1978	Thor-Delta (NASA)	Mission completed.
Broadcasting Satellite-2a (BS-2a)	Eliminate poor television reception in mountainous areas, outlying islands and urban environments with tall buildings and develop satellite broadcast technology.	350 kg	Geostationary	January 1984	N-II-5	In geostationary orbit; will go into operation in May.
*Broadcasting Satellite-2b (BS-2b)	Same as BS-2a.	350 kg	Geostationary	Summer 1985	N-II-7	In final manufacturing and testing stage.

Name	Mission Objectives	Weight	Orbit	Launch Date	Launch Vehicle	Remarks
*Broadcasting Satellite-3a (BS-3a)	Expand broadcasting services provided by BS-2 and hone satellite broadcasting technology.	550 kg	Geostationary	Early 1989 (planned)	H-I	Design phase started FY 1983; manufacturing and testing to start 1986.
*Broadcasting Satellite-3b (BS-3b)	Same as BS-3a.	550 kg	Geostationary	Summer 1990 (planned)	H-I	Design phase started FY 1983; manufacturing and testing to start 1986.
Earth Observation/Meteorological Satellites						
Ionosphere Sounding Satellite (ISS/Ume)	Observe worldwide distribution of critical frequencies in ionosphere to improve short-wave communications.	141 kg	Circular	February 1976	N-I-2	Lost contact one month after launch.
Ionosphere Sounding Satellite-2 (ISS-b/Ume-2)	Same as ISS/Ume.	141 kg	Circular	February 1978	N-I-4	Mission completed February 1983.
Geostationary Meteorological Satellite (GMS/Himawari)	Participate in the Global Atmosphere Research Program (GARP), with object of improving the accuracy of Japanese weather forecasting through the observation of cloud formations.	303 kg	Geostationary	July 1977	Thor-Delta (NASA)	In-orbit spare for GMS-2 since January 1982.
Geostationary Meteorological Satellite-2 (GMS-2/Himawari-2)	Improvement of meteorological service in Japan and development of meteorological satellite technology.	296 kg	Geostationary	August 1981	N-II-2	Became inoperative January 1984; GMS took over its functions same month.
*Geostationary Meteorological Satellite-3 (GMS-3)	Continued improvement of meteorological service in Japan and further development of meteorological satellite technology.	296 kg	Geostationary	Summer 1984	N-II-6	In final test stage.
*Marine Observation Satellite-1 (MOS-1)	Observe marine phenomena, especially the colors and surface temperature of the sea, and establish the technologies common to earth observation satellites.	750 kg	Sun synchronous	Summer 1986	N-II-8	Development work started FY 1983.
*Earth Resources Satellite-1 (ERS-1)	Establish active observation technologies and collect information on land use, agriculture, forestry and the environment in addition to coastal zone monitoring.	1400 kg	Sun synchronous	1990 (planned)	H-I	In research phase; design work to start FY 1984.
*Experimental Geodetic Payload (EGP)	Improve accuracy of geodetic surveys using the conventional triangular network.	675 kg	Circular	Early 1986	H-I (two-stage test flight)	Manufacturing and test stage began FY 1983.

Name	Mission Objectives	Weight	Orbit	Launch Date	Launch Vehicle	Remarks
Engineering Test Satellites						
Engineering Test Satellite-I (ETS-1/Kiku)	Confirm launch technology, acquire satellite tracking and control technology, test antenna performance and examine the satellite environment.	82 kg	Circular	September 1975	N-I-1	Mission completed.
Engineering Test Satellite-II (ETS-II/Kiku-2)	Learn technologies to put satellites in geostationary orbit, acquire geostationary satellite tracking/control and attitude-control technologies and carry out functional tests of onboard equipment.	130 kg	Geostationary	February 1977	N-I-3	Mission completed, but still operating.
Engineering Test Satellite-III (ETS-III/Kiku-4)	Develop production and operation technologies for satellites requiring high power and test three-axis attitude control, deployable solar panels and onboard equipment.	385 kg	Circular	September 1982	N-I-7	Mission completed, but still operating.
Engineering Test Satellite-IV (ETS-IV/Kiku-3)	Verify launch performance of N-II vehicle, acquire data on launch environment as well as technologies for producing and managing large satellites and test functions of onboard equipment.	640 kg	Highly elliptic	February 1981	N-II-1	Mission completed, but still operating.
*Engineering Test Satellite-V (ETS-V)	Confirm launch performance of three-stage H-I vehicle, establish basic technologies for geostationary three-axis stabilized satellite bus systems and implement mobile satellite communications experiments.	550 kg	Geostationary	Summer 1987	H-I (three-stage test flight)	Design phase began FY 1983.

*Scheduled as of August 1983.

Source: Japan, National Space Development Agency, NASDA '83-'84

Appendix 2: Japan's Scientific Satellites

Name	Mission Objectives	Weight	Orbit	Launch Date	Launch Vehicle
Test Satellite (Ohsumi)	Learn satellite launch technology and perform engineering test of satellite.	24 kg	Elliptic	February 1970	L-4S-5
Test Satellite (MS-T1/Tansei)	Test satellite environment and satellite functions after entry into orbit.	63 kg	Circular	February 1971	M-4S-2
First Scientific Satellite (MS-F2/Shinsei)	Observe ionosphere, cosmic rays and solar high-frequency radio emissions.	66 kg	Elliptic	September 1971	M-4S-3
Second Scientific Satellite (Rexs/Denpa)	Observe plasma waves, plasma density, electron flux, electromagnetic waves and geomagnetism.	75 kg	Elliptic	August 1972	M-4S-4
Test Satellite (MS-T2/Tansei-II)	Measure launch vehicle performance and perform engineering test of satellite.	56 kg	Elliptic	February 1974	M-3C-1
Third Scientific Satellite (Srats/Taiyo)	Observe solar soft X-rays, solar vacuum ultraviolet radiations, geocoronal ultraviolet lines and ionosphere.	86 kg	Elliptic	February 1975	M-3C-2
Test Satellite (MS-T3/Tansei-III)	Measure launch vehicle performance and perform engineering test of satellite.	129 kg	Elliptic	February 1977	M-3H-1
Fifth Scientific Satellite (Exos-A/Kyokko)	Observe the density, temperature and composition of plasma and the distribution of electron energy, aurora and particle rays.	126 kg	Elliptic	February 1978	M-3H-2
Sixth Scientific Satellite (Exos-B/Jikiken)	Observe electron density, particle rays, plasma waves and wave-particle interaction.	90 kg	Highly elliptic	September 1978	M-3H-3
Fourth Scientific Satellite (Corsa-b/Hakucho)	Observe X-ray stars, X-ray bursters and very soft X-ray nebulae.	96 kg	Near circular	February 1979	M-3C-4
Test Satellite (MS-T4/Tansei-IV)	Measure launch vehicle performance and perform engineering test of satellite.	185 kg	Near circular	February 1980	M-3S-1
Seventh Scientific Satellite (Astro-A/Hinotori)	Observe two-dimensional hard X-ray image of solar flares and solar particle rays.	188 kg	Near circular	February 1981	M-3S-2
Eighth Scientific Satellite (Astro-B/Tenma)	Conduct two-dimensional imaging of celestial X-ray sources like X-ray nebulae and X-ray galaxies as well as observe X-ray bursters with high temporal and spectrum resolution.	180 kg	Elliptic	February 1982	M-3S-3
Ninth Scientific Satellite (Exos-C)	Observe phenomena in the stratosphere and mesosphere through extensive use of optics as well as clarify the curious behavior of the ionosphere over the South Atlantic Geomagnetic Anomoly found by the Taiyo satellite.	210 kg	Elliptic	February 1984	M-3S-4

Name	Mission Objectives	Weight	Orbit	Launch Date	Launch Vehicle
*Tenth Scientific Satellite (Planet-A)	Observe the interplanetary plasma in the inner region of the earth orbit as well as take close-up ultraviolet images of the coma of Halley's comet.	125 kg	Heliocentric	1985	M-3SII
*Eleventh Scientific Satellite (Astro-C)	Observe more precisely than Astro-B the behavior of celestial X-ray sources both in our galaxy in far-away galaxies.	400 kg	Circular	1987	M-3SII

*Scheduled as of late 1983.

Source: Japan, Science and Technology Agency, Space in Japan 1983-84

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JEI REPORT

NO. 11B
March 16, 1984

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The Dollar Takes a Dive Against the Yen

For several days the financial markets were all a-twitter as the dollar dropped sharply against the yen, though it now seems to be leveling out once again. Beginning in New York and London on Friday, March 2, the change hit the Tokyo foreign exchange market on Monday, March 5. Using data for the Tokyo exchange, the median interbank rate moved from Y233.2=$1 on March 2 to Y226.3 on March 5, a three-percent change in one trading day. The jump was accompanied by a record spot market volume of $3.61 billion dollars, more than 50 percent higher than the previous record. The change continued on March 6 and 7, with the yen peaking at Y221.7, with continued high volumes of $3.0 billion and $2.3 billion on the spot market. Since that time, the yen's gains have eroded to a Y225 level on volumes that are lower than earlier in the week but still much higher than average.

STATISTICAL SUPPLEMENT

Trade and Payments Data

(in millions of dollars unless otherwise indicated)

	1982	1983	January 1983	January 1984	November 1983	December 1983	January 1984
Japan's Balance of Payments							
Trade Balance	$ 18,079	$ 31,649*	$ -634	$ 290*	$ 2,115*	$ 3,863*	$ 290*
Exports (f.o.b.)	137,663	145,429*	9,323	10,126*	12,174*	14,866*	10,126*
Imports (f.o.b.)	119,584	113,780*	9,957	9,836*	10,059*	11,003*	9,836*
Current Account Balance	6,850	21,024*	-1,532	-526*	868*	3,315*	-526*
Long-Term Capital (net)	-14,969	-17,798*	-563	-1,738*	-1,412*	-1,882*	-1,738*
Overall Balance	-4,971	5,177	-2,218	-2,383	1,078	1,037	-2,383
International Reserves (end of period)	23,262	24,496	23,593	24,669	24,697	24,496	24,669
Japan's Customs Clearance Trade							
Trade Balance	6,900	20,455*	-1,698	-865*	1,194	2,872*	-865*
Exports (f.o.b.)	138,831	146,932*	9,227	10,191*	12,415	15,222*	10,191*
Cars	18,015	19,540*	1,623	1,650*	1,611	1,816*	1,650*
Steel	15,645	12,850*	853	909*	1,078	1,340*	909*
Imports (c.i.f.)	131,931	126,478*	10,925	11,056*	11,221	12,350*	11,056*
Crude Oil	46,274	40,063*	4,180	3,283*	3,536	4,286*	3,283*
Japan-U.S. Trade							
Trade Balance	12,151	18,135*	604	1,265*	1,937	2,205*	1,265*
Exports (f.o.b.)	36,330	42,821*	2,525	3,404*	4,022	4,654*	3,404*
Imports (c.i.f.)	24,179	24,686*	1,921	2,139*	2,085	2,450*	2,139*
Yen-Dollar Exchange Rate							
Tokyo Spot Market (end of period)	Y235.00	Y232.20	---	---	Y234.00	Y232.20	Y234.80
U.S.-Japan Trade							
Trade Balance	-16,778	-19,289	-1,352	-2,760	-1,931	-1,721	-2,760
Exports (f.a.s.)	20,966	21,894	1,601	1,854	2,095	2,085	1,854
Industrial Supplies	9,173	8,734	714	724	797	875	724
Food and Feed	4,971	5,555	373	525	535	437	525
Capital Goods	4,434	5,116	321	391	555	567	391
Consumer Goods	1,356	1,394	106	109	111	112	109
Imports (Customs)	37,744	41,183	2,953	4,614	4,025	3,807	4,614
Automotive Products	12,890	14,919	1,101	1,515	1,399	1,443	1,515
Industrial Supplies	6,795	5,391	407	609	514	493	609
Consumer Goods	7,842	8,296	607	868	837	768	868
Capital Goods	9,530	11,896	790	1,547	1,219	1,045	1,547

*Preliminary

STATISTICAL SUPPLEMENT

Japanese Economic Indicators

(percentage change from year-earlier period unless otherwise indicated)

	1981	1982	January-December 1982	January-December 1983	October 1983	November 1983	December 1983
Discount Rate (end of period)	5.5%	5.5%	5.5%	5.0%	5.0%	5.0%	5.0%
Outstanding Money Supply	8.9%	9.2%	9.2%	7.4%	7.2%	6.8%	7.6%
Industrial Production	1.0%	0.3%	0.3%	3.5%	8.2%	7.9%	9.6%
Manufacturing Operating Rate	-4.6%	-2.9%	-2.9%	1.6%	7.6%	7.1%	8.9%
Number of Bankruptcies	-1.5%	-2.8%	-2.8%	11.9%	13.1%	17.7%	16.6%
Residential Construction Starts	-9.2%	-0.5%	-0.5%	-0.8%	-2.0%	-1.6%	6.9%
Job Openings to Applications (ratio)	0.68	0.61	0.61	0.60	0.60	0.63	0.64
Nominal Wages	5.3%	4.5%	2.5%	3.5%	3.3%	2.6%	3.0%
Labor Productivity	2.4%	1.0%	1.4%**	3.5%**	9.6%	n.a.	n.a.
Wholesale Prices	1.4%	1.8%	1.8%	-2.2%	-4.0%	-3.7%	-2.2%
Consumer Prices	4.9%	2.7%	2.7%	1.9%	1.4%	1.8%	1.8%
Yen-Based Export Prices	1.2%	3.9%	3.9%	-6.0%	-8.6%	-6.8%	-3.1%
Yen-Based Import Prices	1.6%	7.9%	7.9%	-7.8%	-15.0%	-14.2%	-9.5%

**Through October of each year only.

For Japan's most recent GNP figures, see JEI Report No. 1B, January 6, 1984.

Mar. 23, 1984/A Not Filmed

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JEI REPORT

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Baldrige Statement Opposes Auto Restraint Extension

Speaking to reporters on March 13, Commerce Secretary Malcolm Baldrige fired the opening salvo on the question of Japanese auto export restraints in 1985. A strong advocate of the restrictions since entering the administration, Secretary Baldrige surprised the press by saying that he believed restraints should be allowed to expire at the end of March 1985. While he was careful to note that he was expressing his own views and not the administration's, his comments are being widely reported and taken very seriously.

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Austere Budget Passes Lower House as Private Sector Picks Up Steam

Overcoming a six day boycott of Diet business by opposition parties, the Liberal Democratic Party-New Liberal Club (LDP-NLC) coalition government pushed its FY 1984 budget proposal through the lower house on March 13. As a measure of the second Nakasone cabinet's strength, the effort was impressive. It took just 23 days to pass the approval process in comparison to the average 30 days, even including the six day impasse. Highlights of the adopted budget include:

- An overall general budget increase of just 0.5 percent over FY 1983 to Y50.6 trillion ($225 billion at current exchange rates). This will still leave a Y12.7 trillion ($56 billion) deficit.
- A 7 percent increase in tax receipts, in part from increased or new indirect levies including liquor taxes, sporting/luxury goods taxes and automobile taxes. A 1.3 percent hike in the national corporate tax and a 2.5-fold jump in the local corporate tax are also major revenue generators.
- A 5 percent reduction in the budget deficit will cut government bond issues by the same amount, but the cost of servicing the outstanding debt issues will rise 12 percent to Y9 trillion ($40 billion).
- Cuts in spending for all discretionary line items, including public works and agricultural price supports, except for defense, overseas economic aid, education and science.
- A 6.5 percent rise in outlays for national defense to a Y2.9 trillion ($13 billion) level, coming within a hair's breadth of the Nakasone-supported cap of 1 percent of gross national product.

(For details see JEI Reports 5B, February 3, and 7A, February 17, 1984.)

The six day opposition boycott was precipitated by a debate over the LDP-NLC defense spending proposal. The walkout was called when the ruling coalition refused to compromise on a cut. Faced with an absence of public support for the boycott, a lack of alternative policies, and inadequate voting strength, however, the protest action quickly collapsed. While the Nakasone cabinet faced hard-nosed questioning by opponents, it handled the deliberations competently -- pushing the proposal through without reference to the Tanaka scandal.

While politicians battled things out, the Japanese economy continued to perk along quite nicely. Preliminary figures for the fourth quarter of 1983 show gross national product rising 0.8 percent in real terms over the previous quarter or 3.2 percent in annual terms, meaning that the government's 3.4 percent growth goal for the fiscal year ending March 31 will be easily reached. Fourth-quarter growth was down from the previous quarter (6.2 percent annually), reflecting a drop in public-sector investment (off 2.9 percent) and slowed growth in personal consumption (2.0 percent compared with the third quarter's 3.7 percent figure). Private housing investment jumped 24.8 percent on an annual basis from the third quarter and corporate investment grew at an annualized rate of 7.8 percent, contributing to the solid performance.

Major economic indicators for January reveal weaknesses in the Japanese economy, but paint a generally positive picture.

Japanese Economic Indicators, January 1984

(Seasonally adjusted)

	Percentage change from:	
Indicator	Previous Month	Previous Year
Production	0.8%	10.1%
Shipments	2.2	8.6
Producer's Inventories	-15.1	-5.4
Housing Starts	-4.6	-11.7
Bankruptcies	-17.8	19.3
Exports, (February, f.o.b., yen basis)	3.0	18.3
Imports, (February, c.i.f., yen basis)	4.4	13.3
Current-Account Balance (February)	-3.4	53.0
(in millions of dollars) 2/84 = $2,467	1/84 = $2,554	2/83 = $1,308
Money Supply (M2 plus CDs)	1.2	7.6
Unemployment Rate (in percent) 1/84 = 2.73	12/83 = 2.63	1/83 = 2.68

Given the marginal growth of the FY 1984 budget and the cuts in public works expenditures, fiscal policy remains non-stimulative, if not deflationary. In order to relieve specific areas of the economy, including housing construction and unemployment, monetary policies such as a cut in the discount rate may be necessary. While Bank of Japan officials have resisted such a move to date, the economic weak spots plus a stronger yen may pursuade them otherwise.

The budget moved to the upper house for consideration almost immediately in light of the prime minister's March 23 departure for China. The prime minister faced pointed questions about his commitment to military spending, education and administrative reform from concerned councilors. Stressing the Soviet threat in Northeast Asia and Japan's growing responsibilities, Mr. Nakasone reiterated his support for defense spending increases, but backed away from his constitutional reform drive. In the lower house, meanwhile, tax policy and administrative reform are the foci of new clashes as opposition parties seek new personal income-tax cuts and bars against indirect tax increases. Given its strong showing in the budget process, the ruling coalition will likely win its way on all important issues.

Jon Choy

Telecommunications Reform and Software Rights: One Down, One to Go

The drama surrounding Japan's efforts to reform its domestic telecommunications market and to create legal protections for computer programs

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JEI

REPORT

NO. 13A

March 30, 1984

THE SECOND NAKASONE CABINET

Summary

With relative ease, the newly appointed Nakasone cabinet is clearing its first political hurdle--the 1984 budget--since December's general election. The Liberal Democratic Party's lack of a clear majority in the Diet has complicated the task of this administration, which for the moment is moderating its style to avoid serious parliamentary problems.

This report will examine key members of the current administration, including leaders of the LDP and non-governmental advisers. Specific attention will be directed to the coalition government's approach to current political problems vis-a-vis the issues pending between Japan and the United States. And finally, Prime Minister Nakasone's political character will be discussed in terms of the November internal party election and the new prominence given to the issue of educational reform.

Cabinet Members

The second cabinet (see Table 1) retains three ministers from the first: Minister of Foreign Affairs Shintaro Abe, Finance Minister Noboru Takeshita, and Masaharu Gotoda, Director-General of the Administrative Management Agency -- formerly Chief Cabinet Secretary. These appointees were considered essential to achieve progress on major pending issues, i.e. foreign policy and the budget. The appointments were also related to the balance of power between LDP factions. Takeshita and Gotoda belong to the powerful Tanaka faction; Abe to the Fukuda, the largest of the non-mainstream factions.

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Abe is in a delicate position, one for which he is well-suited. A journalist for Mainichi Shimbun during his early career, he is very effective in dealing with the bureaucracy. At the same time, as a potential successor to Prime Minister Nakasone, he is caught in a political dilemma. Duty-bound to support the Nakasone administration as a loyal cabinet member, he is unable to pursue an active campaign for the leadership post. Despite this constraint, he is thoroughly appreciated as foreign minister and is said to work well with Secretary of State George Shultz.

The second appointee, Finance Minister Takeshita, known for his skilled maneuvering in intra- and inter-party politics, seems to be emerging as a policy specialist. After supervising the preparation of three budget drafts, he has turned his attention to the legislation to liberalize Japan's capital markets. As one of the senior LDP members -- a self-styled "new leader" and a potential party president, he is probably anxious about his position in the Tanaka faction. However, he seems determined to take a "wait-and-see" stance, content to remain under Kakuei Tanaka's factional leadership.

Masaharu Gotoda, the third Nakasone veteran, is expected to be appointed to head the new General Administrative Agency which will be inaugurated in July on the recommendation of the Ad Hoc Council on Administrative Reform. The new agency is charged with streamlining the bureaucracy and coordinating effective government administrative efforts. In the first cabinet, Mr. Gotoda displayed special talents for the delicate post of chief cabinet secretary, and in fact, continues to have a hand in organizing the cabinet. He will assume responsibility for the most important issue facing government officials, a carry-over from the first cabinet -- administrative reform.

Among the new faces, Home Affairs Minister Seiichi Tagawa, the New Liberal Club (NLC) leader, is the most noteworthy, since his nomination was a necessity born of the coalition that enabled the LDP to retain power in the Diet. During the recent budget deliberations, he was attacked by the opposition parties for his shift in position. However, Mr. Tagawa, a former writer for Asahi Shimbun, is surviving and gaining respect. Recently, he shocked the journalistic community by advocating a new tax on advertisements which would substantially discourage corporate advertising -- the most important source of revenue for newspapers and television stations.

The Director-General of the Economic Planning Agency (EPA), Toshio Komoto, founder of a shipping company, has been critical of Nakasone and even publicly suggested that the prime minister resign just after the December election. However, his presence in the administration was necessitated by the need for LDP factional balance to ensure the survival of the cabinet. Even though his position and that of his faction are poles apart from Nakasone, he can still be considered closer to the prime minister than the NLC. In this sense, his seemingly discordant position is overshadowed by Mr. Tagawa. As an advocate for an expansive economic policy, Mr. Komoto was expected to challenge the administration's rather conservative economic position. However, since early this year, Japan's economic recovery has appeared more and more pronounced. Ironically, this improvement has worked against the EPA director's chances of politicizing the issue.

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The four ministers assigned to agencies with international responsibility -- Yuko Kurihara (Defense), Hikosaburo Okonogi (MITI), Shinjiro Yamamura (Agriculture), and Keiwa Okuda (Post and Telecommunications) -- are all rather new. Only Mr. Kurihara has previous experience in the cabinet (Minister of Labor). Both Messrs. Okonogi and Yamamura are old hands at Diet politics and were appointed for their adroitness in dealing with the opposition parties. The appointments of Ministers Kurihara and Okuda were dictated by factional balancing arrangements. Even though the Nakasone faction wanted the Post and Telecommunications seat, which administers the fast-growing new industries like value-added networks (VAN) and cable TV, the Tanaka faction (Okuda) successfully landed the office.

Yuko Kurihara, head of the Defense Agency and administration spokesman for the defense spending increase proposal, seemed rather cautious about the military buildup, specifically the 1000-mile sealane defense. He is a member of the Suzuki faction and up to now -- only a few months into his first term -- has fundamentally followed the policies laid down by the prime minister.

LDP Relationships

Day-to-day rearrangement of the Liberal Democratic Party is in the hands of the senior politicians appointed to the party's four major administrative posts. These positions control the party's finances, policy formulation and electoral strategy. Because it is composed of semi-independent competing factions, the LDP must manage the factional balance carefully when appointments are made. Within the party, it is essential that members are willing to work together, and above all, that the party president/prime minister provides a high level of political skill to avoid a breakdown in the decision-making process.

Of the four key party administration figures, Secretary General Rokusuke Tanaka is the prime minister's closest confidante. He was given the number-two position in the party as a reward for his post-election role in dealing with the depleted power of the Nakasone regime and in organizing the coalition with the NLC. As a senior member of the Suzuki faction, he formally supports Kiichi Miyazawa, Suzuki's acting successor. However, few political observers believe that he would be disappointed by Nakasone's reelection this fall. Although he has serious health problems, he is closely watched by other LDP members since his prodigious influence could affect the party election.

The Executive Council chairman, Shin Kanemaru, is one of the most powerful members of the Tanaka faction. While he supports Takeshita for LDP president, his reputation for independence gives him additional leverage in internal LDP politics.

The chairman of the Policy Affairs Research Council, Masayuki Fujio, serves as a strong representative for the Fukuda faction, which stands somewhere outside of, if not against, the LDP mainstream factions (Nakasone, Tanaka and Suzuki). Mr. Fujio, another former journalist (Yomiuri Shimbun), has been reported in the press to be critical of Mr. Nakasone's educational reform initiative.

Deputy Secretary General Michio Watanabe is also said to be close to Mr. Nakasone. He is the "prodigal son" of the prime minister's faction and is most likely to be chosen as head of the Nakasone faction. As a former Minister of Finance, he is campaigning for a major tax increase to balance the budget, thus saving the prime minister the personal political inconvenience of having to publicly support an unpopular position.

Advisers

Four government agencies -- the Ministries of Finance, Foreign Affairs, International Trade and Industry (MITI) and the National Police Agency -- appoint one mid-ranking bureaucrat to serve as official secretary to the prime minister. These officials, who are assigned to the Secretariat, work closely with the prime minister and serve an important liaison function with the ministry from which they came. They are chosen on the basis of their administrative and political skills, and sometimes for prior personal connections with the incumbent prime minister. Yatsuo Iwasaki, from MITI, for example, worked for Mr. Nakasone when the prime minister was chief of MITI. Even though this group's official titles are not as senior or as conspicuous as the cabinet-level advisers in the White House, its actual behind-the-scenes functions are quite important, particularly in moderating the friction between various government departments.

From outside the government, leaders of the business and academic communities and former government officials also contribute to policy formulation. Since Mr. Nakasone came to power, several groups have been established that hold monthly luncheon or dinner meetings with the premier. Two or three of these are often described as a "brain trust" for the chief executive. The most important is called the "Advisory Friends," and is attended by seven people: Ryuzo Sejima (counselor for C. Itoh & Co.); Goro Koyama (counselor for Mitsui Bank); Nobuhiko Ushiba (chairman, Japan-U.S. Advisory Commission); Takashi Hosomi (president, Overseas Economic Cooperation Fund); Yutaka Takeda (president, Nippon Steel Co.); Yoshihiro Nakayama (president, Mideast Research Institute); and Hiromori Kawashima (former deputy cabinet secretariat). Mr. Nakasone meets with this group as often as twice a month. They represent diverse sectors of society, but most of them have certain personal or school ties with the prime minister.

The 11-member "Study Group for Peace," chaired by Kyoto University professor Masataka Kosaka, is another active advisory organization. Established in August 1983, this group meets once a month to review Japan's national security policy. Besides Kosaka and two Advisory Friends members, Sejima and Nakayama, it includes: Yoshihisa Ohjimi (counselor for Arabian Oil Company); Yoshiko Sato (lawyer): Tatsuo Sato (counselor for Jiji Press); Michio Takeuchi (chairman, Board of Tokyo Stock Exchange); Sohei Nakayama (chairman of the board, International University); Shokichi Namiki (director, Food and Agricultural Policy Institute); Yoshiji Miyata (president, Federation of Steel Worker's Labor Unions); and Takashi Mukaibo (acting chairman of the Nuclear Committee).

In addition, Nakasone meets with people from the business communities (Zaikai) in Tokyo, Osaka and Nagoya periodically. All prime ministers have had similar contacts. One unique association, the Sanno Economic Study Group, includes heads of small and mid-sized companies. It is chaired by Noburo Mochida (president of Mochida Pharmaceutical Co.). Nakasone's rather close relationship with this sector of the business community reflects past patterns of financial support for his faction. Because the Nakasone faction in the past has not been considered part of the LDP mainstream, he has had difficulty establishing effective personal ties with the larger companies in the business community. Instead he has had to rely on smaller firms for financial donations. Members of the Sanno Economic Study Group are essential to Mr. Nakasone's fund-raising activities.

Among those advisers, Sejima, who was an officer of the joint chiefs of staff during World War II, is said to be Nakasone's closest friend and most influential contact. Immediately after Nakasone was elected, Sejima personally helped to arrange his visit to South Korea. He was also a key participant in the effort to coordinate conflicting views on government reform and has advised Nakasone on many other matters, particularly international relations and military affairs.

Issues in Bilateral Relations

The improvement in the economy both in Japan and the United States offers this cabinet much more leeway in handling bilateral issues than was available to the first cabinet. The most urgent of these is the question of agricultural imports, especially beef and citrus. The Agriculture Minister's unfamiliarity with this issue will not affect the deliberations because the negotiations are so sensitive that they are being supervised by the prime minister himself and by key agricultural representatives in the LDP. Prime Minister Nakasone is apparently determined to resolve this problem personally, which is as useful to the Reagan administration as it is for Mr. Nakasone.

The final proposal to increase the quota for beef and citrus imports is now under consideration. Agreement is expected to be reached by the end of March when the existing arrangement on beef and citrus trade ends. There is support in Japan for a three-year agreement -- a departure from the current four-year accord. Japan would prefer that the subject not come up again in a U.S. presidential election year.

The focus of attention on trade issues is now shifting from merchandise to services and software. Capital market and banking deregulation measures have been passed by the cabinet and the Ministry of Finance has already drafted a financial liberalization program. Even so, the real trouble spots, like the strict division of banking functions, will continue to cause some friction between Japan and the United States.

Issues like legislation for computer software copyrights and liberalization of telecommunications services are burning controversies in the Japanese government (see JEI Report No. 12B, March 16, 1984). They present new problems for Japan, raising jurisdictional conflicts. Unless they are resolved in a satisfactory manner, they will continue to be hot issues even beyond the second cabinet's tenure.

On defense, the revision of the Mid-Term Defense Program (FY 1983-87), especially the sea-lane buildup, is the cabinet's biggest responsibility, with serious implications for Japan's defense policy and the bilateral relationship. Military specialists in both Japan and the United States consider the existing program too conservative, especially for the sea-lane buildup. Prime Minister Nakasone expects the non-governmental "Study Group for Peace" to present him with a proposal on this by the end of July. The proposal will address fundamental defense policy, including the deliberation of the "National Defense Program Outline" (approved by the cabinet on October 29, 1976) which authorizes Japan's existing defense policy.

Political Dynamics

Earlier, it was thought likely that there would be another general election before the LDP general meeting and party presidential election in November. Prime Minister Nakasone was expected to risk his tenure in a bid to regain LDP Diet seats. But this option seems to have been abandoned. His strategy to divide the power of rival candidates has worked quite effectively so far. Even though two of the "new leaders," Shintaro Abe and Noboru Takeshita, are in the cabinet, a third, Kiichi Miyazawa, is not. And the last candidate, Toshio Komoto, also seems rather isolated.

The current configuration of this cabinet, however, will be rather short. In July, when the new General Administrative Agency is established, it is expected that there will be a reshuffling. Mr. Nakasone is expected to make at least two changes: the appointment of a director of the new agency, and a special minister for external affairs. Those two nominations, however, may trigger others. As mentioned earlier, Masaharu Gotoda is widely expected to be nominated to head the new agency. The external affairs post is expected to go to Masumi Ezaki, chairman of the LDP special study group for international economic issues. Both belong to the Tanaka faction, however, and to ease the repercussions of this imbalance, Nakasone will have to adjust his other appointees -- even if only cosmetically.

Past incumbent prime ministers have used cabinet reorganization to strengthen their hold on the premiership. But, given the complexity of inter-party alliances, a cabinet reshuffle is a delicate business which, if improperly handled, can backfire, and force the incumbent to resign. The LDP's loss of seats in the December 1983 election and the resulting coalition with the New Liberal Club further complicates the process for Mr. Nakasone this time around. But political observers in Japan are becoming more and more confident that the prime minister will be reelected in the fall.

The current political dynamics of the LDP can be analyzed on two levels. One is the struggle between the largest faction (Tanaka) and all of the other factional groups; the second is the struggle between the older and the younger generation. The "new leaders" -- Miyazawa (64), Abe (59) and Takeshita (59) want to take over. These men, who are actually not all that young, are trying to make this the last regime of the party's elder statesmen, not only in terms of official capacity but also in terms of actual intra-party power.

After Eisaku Sato, the longest-ruling prime minister in Japan (1964-1972) stepped down, Tanaka (67), Fukuda (79), Miki (77), Ohira and Nakasone (65) emerged as candidates for the LDP leadership. All of them have realized their ambitions. All of Nakasone's predecessors were forced out of office by unexpected events, and all of them, except Ohira, are still alive and quite powerful -- particularly Tanaka and Fukuda, both faction leaders.

It is quite interesting to note that Abe and Takeshita, who belong to "enemy" factions, are reported to dine tete-a-tete very often. They appear to agree that the LDP should promote the younger generation, rather than older candidates such as Komoto (72, seven years older than Nakasone), and Miyazawa, the oldest "new leader." Nakasone's reelection would effectively eliminate Miyazawa from future consideration. So at least on this matter, Abe and Takeshita seem to be in agreement with Nakasone, who considers Miyazawa, successor to the established Suzuki faction, his most powerful rival. The feasibility of Nakasone's reelection is thus supported by the fact that he is in an excellent position to manipulate the factional balance.

What Are Nakasone's Politics?

This year, the issue given the most prominence by Mr. Nakasone is educational reform. In spite of some opposition -- even from within the LDP -- he has been quite active in establishing a special advisory council which is to be given official standing through legislation. The reform strategy is similar to the administrative reform plan which launched Nakasone onto the LDP leadership track and into the premiership.

The education issue was first raised during the December election campaign. The setback dealt the LDP at that time, however, prevented him from pursuing the subject aggressively. A meeting early this year with the leader of the Democratic Socialist Party (DSP), Ryosaku Sasaki, renewed discussions on the subject. The New Liberal Club (NLC), active on education policy since its formation in 1976, also encouraged this move.

The choice is quite timely and shrewd, coming at a point when many social problems connected with the schools have emerged. Violence in Japan's junior high schools is on the rise. Attacks in the the classroom have been reported. In a widely publicized case, a disturbed student recently beat his parents to death, presumably a reaction to the pressure of college entrance exams. No Japanese would deny the necessity for educational reform, but many may resist treating it as a political issue. Mr. Nakasone has taken a risk in forcing the nation to confront the question. In a sense, it demonstrates strong leadership, like that seen during his discussions of military issues with President Reagan last year, although the traditional roots of the political strategy behind this choice should not be underestimated. To explain Nakasone's position, it is useful to analyze his style of operation in the broader context of Japan's postwar politics -- specifically the two streams of the ruling conservative party.

The mainstream LDP, led during the postwar period by former prime ministers Yoshida, Ikeda, Sato and Ohira, tended to emphasize economic issues; the anti-mainstream, initiated by then-Prime Minister Nobusuke Kishi, stressed political independence and defense issues. This group is thought of as more "nationalistic." Nakasone is considered the heir of the latter group, and the issues he has emphasized during his premiership are consistent with traditional anti-mainstream concerns.

There is another important aspect of the prime minister's political style. He has been likened to a "weathervane" by the Japanese press, implying an abundant willingness to compromise basic principles for political expediency. His supporters have countered this criticism by characterizing his policy shifts as "flexibility," rather than a lack of principle, and by saying that adaptability to variable political currents is one of the most important qualities required of a political leader.

The choice of educational reform is typical of Nakasone's sensitivity to the current political climate. The problems facing Japan's educational system have been given wide coverage in the media. Nakasone picked up the theme and turned it to political advantage by explaining to the Diet his reverence for Japanese tradition and his goal of recovering Japan's national identity through reexamination of Japan's educational system. During his first year in office when the LDP enjoyed a safer political position in the Diet, he selected more controversial issues, such as national defense and the question of the need for a constitutional amendment to allow military spending to rise.

He is said to have another reason as well. Administrative reform -- the political focus of his first cabinet -- has already waned in popularity. Although the fundamental objective of the program was to balance the budget without increasing taxes, the government does seem to be moving gradually toward a tax increase to meet budget needs and avoid additional deficits. The shift to educational reform may be designed to divert attention from vexing tax and budget problems.

Nakasone insists that he has not abandoned his pledge for administrative reform. At the same time, he is emphasizing the "higher" importance of educational reform. Nearly a year ago he is said to have commented at a closed-door meeting of the Research Institute of National Policy that after streamlining the bureaucracy, he would grapple with education and then defense, with the same targeted scheme for reform that was used in the administrative overhaul.

Educational reform is, of course, a domestic issue. However, it may serve as a transition toward Nakasone's ultimate goal, defense. And, in a sense, it could carry more than domestic significance. It could have serious implications for the younger generation's world views.

For further information, contact Hiroshi Ando.

The views expressed in this report are those of the author and do not necessarily represent those of the Japan Economic Institute.

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NAKASONE'S CABINET LINEUP

Name	Age	Position	District	Faction	Number of Times Elected	Previously Held Posts	Former Career	Financial Background (million yen) Real Property	Credit & Securities	Debt
Yasuhiro Nakasone	65	Prime Minister	Gunma	N	15	Transport Minister; Director General; Defense Agency; S.G.	National Police Agency	7,331	5,078	3,580
Eisaku Sumi	63	Justice Minister	Toyama	S	5	Political V. Minister of Construction	Labor Ministry	5,014	1,264	5,000
Shintaro Abe	59	Foreign Minister	Yamaguchi	F	9	Agriculture Minister; Chairman, P.A R.C.	Newspaper Journalist	9,415	3,759	0
Noboru Takeshita	59	Finance Minister	Shimane	T	10	Chief Cabinet Secretary; Deputy S.G.	Member of a Prefectural Assembly	6,436	5,024	1,416
Yoshiro Mori	46	Education Minister	Ishikawa	F	6	Deputy Cabinet Secretariat	Newspaper Journalist	1,838	290	5,400
Kozo Watanabe	51	Health and Welfare Minister	Fukushima	T	6	Political V. Minister of Education	Member of a Prefectural Assembly	1,920	4,483	1,741
Shinjiro Yamamura	50	Agriculture, Forestry, Fisheries Minister	Chiba	T	7	Political V. Minister of Transport	Secretary for Dietman	3,076	525	0
Hikosaburo Okonogi	55	International Trade & Industry Minister	Kanagawa	N	6	Political V. Minister of Foreign Affairs	Lumber Trading Business	34,121	5,585	6,434
Kichizo Hosoda	71	Transport Minister	Shimane	F	9	Director General of Defense; Chairman, E.C.	Transport Ministry	2,793	0	640
Keiwa Okuda	56	Posts and Telecommunications Minister	Ishikawa	T	6	Political V. Minister of Foreign Affairs	Member of a Prefectural Assembly	1,590	6,485	1,995
Misoji Sakamoto	60	Labor Minister	Ishikawa	K	7	Chairman of House Education Committee	Member of Local School Board	6,721	1,952	8,806
Kiyoshi Mizuno	58	Construction Minister	Chiba	S	6	Political V. Minister of Foreign Affairs	Radio Newsman (NHK)	2,276	215	11,355
Seiichi Tagawa	65	Home Affairs Minister (Chairman, National Safety Commission)	Kanagawa	NLC	9	Political V. Minister of Health & Welfare	Newspaper Journalist	8,556	1,341	840
Takao Fujinami	51	State Minister (Chief Cabinet Secretary)	Mie	N	7	Labor Minister Deputy Cabinet Secretariat	Member of a Prefectural Assembly	1,462	1,777	2,447
Ichiro Nakanishi	68	State Minister (Director General, Prime Minister's Office; Director General, Okinawa Development Agency)	Hyogo	F	*3	Political V. Minister of International Trade and Industry	Agriculture Ministry	472	2,740	0

								Financial Background (million yen)		
Name	Age	Position	District	Faction	Number of Times Elected	Previously Held Posts	Former Career	Real Property	Credit & Securities	Debt
Masaharu Gotoda	69	State Minister (Director General, Administrative Management Agency)	Tokushima	T	4	Chief Cabinet Secretary	National Police Agency	4,767	4,100	2,250
Yuko Kurihara	63	State Minister (Director General, Defense Agency)	Shizuoka	S	*2 & 5	Labor Minister; Chairman, House Budget Committee	Agriculture Cooperative (Nokyo)	2,297	1,083	0
Yoshio Komoto	72	State Minister (Director General, Economic Planning Agency)	Hyogo	K	14	International Trade & Industry Minister; Chairman, P.A.R.C.	Shipping Company	8,747	510,264	610,800
Michiyuki Isurugi	70	State Minister (Director General, Science & Technology Agency; Chairman, Atomic Energy Commission)	Iwate	S	1 & *4	Chairman of Fianace Committee; (House of Councilors)	Finance Ministry	12,434	473	11,130
Minoru Ueda	69	State Minister (Director General, Environment Agency)	Kyoto	T	*4	Chairman of Local Government Committee; (House of Councilors)	Construction Ministry	339	4,065	0
Sakonshiro Inamura	66	State Minister (Director General, National Land Agency; Director General, Hokkaido Development Agency	Ishikawa	N	8	Director General, Prime Minister's Office	Construction Company	8,970	17,705	0

*Refers to House of Councillors

S.G. = Secretary General
P.A.R.C. = Policy Affairs Reserch Council
E.C. = Executive Council

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China Awaits Japan's Prime Minister

On the eve of Prime Minister Nakasone's trip to China, a review of recent Sino-Japanese relations can serve to describe the current environment and perhaps throw some light on the motivations and goals of both sides. Since the normalization of diplomatic ties in September 1972, the two countries have slowly constructed a solid foundation in both trade and cultural sectors, and government officials are now seeking a framework for cooperation in political and security matters. While unlikely to ever approach the status of an alliance, the geographical neighbors feel close cooperation in some areas would be of mutual benefit.

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The real bedrock of relations is bilateral trade. The two economies continue to be highly complementary: Japan trading technology and industrial goods which China pays for with agricultural products and raw materials. The attached table presents an overview of Sino-Japan trade from 1979 to February of this year. The generally positive trend in trade volume is probably due to several factors. First, externally oriented economic policies pursued by Deng Xiao-ping have increasingly brought China's domestic economy into the global market. Second, the 1978 long-term trade agreement provided goals and a framework to facilitate transactions. And finally, the Japanese government, pursuing its long-term pragmatic view of bilateral relations, actively supported and financed an expansion of bilateral activities

The importance of this trade tends to be masked by its relatively small share of the total trade of each country. China bought just 3 percent of Japan's total exports and its products accounted for only 4 percent of Japan's imports in 1983; Japan represented about 20 percent of China's total export and import trade last year. China is Japan's top customer for several export items, including steel sheet, tinned sheet, man-made fibers and plastics. It is is Japan's primary supplier of industrial inputs such as cotton fabrics, raw silk and pig iron, while holding the number-two position for light oils, kerosene, non-metallic minerals and vegetables.

One problem that the Chinese would like to see corrected is the surprisingly low level of Japanese direct investment in China. Of 112 direct investments or joint ventures in China as of September 1983, only nine involved Japanese firms, compared with Hong Kong's 68 joint ventures and the United States' 18 projects. Investment conditions have improved, however, since last September's agreements on taxation and investment sanctity. While Japan plans to send an investment mission to China next month, any significant change in the current situation is not likely because Japanese concerns, such as political instability, bureaucratic inefficiency, inadequate infrastructure and a lack of managerial expertise, have not been addressed.

Another area of recent activity concerns energy trade and in particular, exports of nuclear power plants. Japan insisted that China comply with three requirements: controls over the recycling of spent nuclear fuel; a prohibition on the reexport of Japanese nuclear technology to other countries; and on-site inspections -- all obviously to prevent weapons manufacture. On March 16, notes were exchanged in Beijing that provided the Japanese with the guarantees they were seeking. At the same time, Minister of International Trade and Industry Hikosaburo Okonogi announced that permission would be granted to Mitsubishi Heavy Industries to supply a reactor pressure vessel to serve as the heart of China's first nuclear power plant. With the Chinese planning to build 20 nuclear power plants by the year 2000, the agreement opens a new and potentially lucrative market to the Japanese.

The primary reason for Mr. Nakasone's trip, according to government officials, is to exchange views on a number of security issues, the most prominent of which is the tension in the Korean peninsula. A number of initiatives by concerned parties have recently surfaced and Japan feels that China must be brought into the process if real progress is to be made. The prime minister is expected to pursue a suggestion made by Party Secretary Hu Yao-bang to create a China-Japan committee to provide enhanced communications.

Japan's Trade with China 1979-1984
(in millions of dollars, seasonally unadjusted)
(percentage change from same period previous year in parentheses)

	1979		1980		1981		1982		1983		1984			
											January		February	
	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports
Total	$3,698.7 (21.3%)	$2,954.8 (45.5%)	$5,078.3 (37.3%)	$4,323.4 (46.3%)	$5,095.5 (0.3%)	$5,291.8 (22.4%)	$3,510.8 (-31.1%)	$5,352.4 (1.1%)	$4,914.1 (40.0%)	$5,087.1 (-5.0%)	$405.4 (78.1%)	$423.7 (2.1%)	$419.7 (33.8%)	$476.1 (22.0%)
Food	0.5 (217.1%)	432.1 (19.5%)	1.3 (182.3%)	470.7 (8.9%)	5.3 (304.7%)	556.1 (18.2%)	6.0 (13.2%)	504.4 (-9.3%)	16.3 (171.6%)	522.6 (3.6%)	1.0 (2.0%)	47.8 (3.6%)	1.3 (212.9%)	44.6 (27.0%)
Textiles	164.3 (-1.9%)	485.7 (58.2%)	403.9 (145.8%)	533.0 (9.7%)	599.4 (48.4%)	551.4 (3.4%)	367.9 (-38.6%)	572.8 (3.9%)	286.3 (-22.2%)	621.5 (8.5%)	23.9 (43.1%)	58.6 (10.5%)	24.9 (66.8%)	62.8 (50.7%)
Chemicals	459.6 (9.5%)	124.4 (122.8%)	543.1 (18.2%)	198.0 (59.2%)	523.1 (-3.7%)	244.6 (23.5%)	469.8 (-10.2%)	230.1 (-5.9%)	509.9 (8.5%)	218.1 (-5.2%)	41.7 (18.9%)	20.0 (8.2%)	50.7 (72.0%)	13.8 (24.9%)
Nonmetallic Mineral Manuf.	27.9 (171.5%)	*	34.1 (22.2%)	*	68.9 (102.2%)	*	36.9 (-46.5%)	*	70.7 (91.8%)	36.9	3.1 (15.1%)	2.0 (-65.3%)	4.1 (-28.9%)	3.0 (75.7%)
Metal Products	1,748.0 (3.5%)	15.4 (116.5%)	1,683.3 (-3.7%)	49.1 (218.5%)	1,249.8 (-25.8%)	210.0 (327.8%)	1,354.3 (8.4%)	189.0 (-9.7%)	2,432.8 (79.6%)	62.6 (-66.9%)	211.8 (90.5%)	2.8 (-58.0%)	181.2 (52.6%)	1.9 (26.4%)
Machinery & Equip.	1,124.6 (76.6%)	1.9 (96.8%)	2,146.7 (90.9%)	4.8 (151.2%)	2,433.4 (13.4%)	38.4 (699.3%)	1,067.1 (-56.1%)	7.4 (-80.8%)	843.5 (-21.8%)	13.4 (81.3%)	67.6 (-31.2%)	0.9 (-33.5%)	78.3 (17.4%)	0.5** (-66.6%)
Other	173.8 (82.1%)	156.1 (45.7%)	266.0 (53.0%)	190.7 (22.2%)	215.4 (-19.0%)	241.9 (26.9%)	208.8 (-3.1%)	212.3 (8.4%)	219.3 (5.0%)	250.5 (-11.8%)	19.5 (108.3%)	19.1 (11.1%)	27.3 (80.6%)	14.3 (14.0%)
Metal Ores & Scrap		10.5 (109.8%)		8.5 (-19.1%)		16.9 (98.4%)		16.6 (-1.7%)		11.0 (-33.5%)		0.5 (-53.9%)		0.3 (-66.5%)
Raw Materials		316.2 (90.4%)		312.5 (-1.2%)		335.3 (7.3%)		331.5 (-1.1%)		422.1 (27.3%)		39.7 (5.8%)		37.6 (49.1%)
Mineral Fuels		1,188.7 (45.2%)		2,376.6 (99.9%)		2,935.1 (23.5%)		3,061.4 (4.3%)		2,778.6 (-9.2%)		211.9 (-2.5%)		276.0 (12.5%)
Textile Materials		223.7 (11.4%)		179.4 (-19.8%)		162.1 (-9.6%)		176.9 (9.1%)		208.2 (17.7%)		20.0 (20.6%)		21.7 (41.1%)

* included in "Other" category
** partial data only

Source: Ministry of Finance

Additionally, he will offer China a new seven-year Y460 billion ($2 billion) package of low-interest loans for development projects. Mr. Nakasone will have his hands full meeting with all the top Chinese leaders during this important visit.

Jon Choy

Boeing, Japanese Trio Agree to Work on Medium-Size Jetliner

Boeing Co. and its three Japanese partners on the 767 aircraft program have moved a step closer to collaborating on a new medium-size, medium-range jetliner. On March 15, the aerospace giant and the team of Mitsubishi Heavy Industries, Ltd., Kawasaki Heavy Industries, Ltd. and Fuji Heavy Industries, Ltd. formally agreed to explore the possibility of developing a fuel-efficient, quiet plane in the 150-seat range. The Japanese companies, operating under the umbrella of the Japan Aircraft Development Corp., will be full-fledged partners in the program if it goes ahead, involved in all phases from design through marketing and product support, not just risk-sharing participants like they are on the 767 project (see JEI Report No. 39A, October 14, 1983). The trio will cover 25 percent of the estimated $1.6 billion cost of bringing the new airliner to the market. Boeing will hold a stake of at least 51 percent in the program -- dubbed the 7-7 here and the YXX in Japan, with the remaining 24 percent open to participation by other companies.

Boeing officials are quick to emphasize that the letter of understanding initialed with the Japanese consortium only commits the two parties to study possible development of a passenger transport of medium size and range; it is not a production contract. They also rebuff suggestions that the agreement was timed to neutralize the recent announcement by Europe's government-backed Airbus Industrie S.A. that it was launching development of the new 150-seat A320. Boeing has been discussing the possibility of teaming up with the Japanese trio on the next generation of mid-size aircraft since 1980, executives of the Seattle firm note, adding that basic details of the memorandum of understanding had been ironed out by last fall. Moreover, the two sides have been doing independent initial design work on a 150-seat-class jetliner for the past two years, with Boeing said to have already spent $100 million on preliminary designs and wind tunnel testing.

Spokesmen for the American aerospace concern maintain that Boeing and its Japanese partners will not limit their feasibility studies to a 150-seat plane; market conditions, among other factors, will determine the configuration of the proposed jetliner. They add, though, that if the companies do decide to develop a new medium-size, medium-range jetliner, the aircraft will be state of the art, offering such features as improved aerodynamics and advanced flight decks and making extensive use of high-strength, weight-reducing aluminum-lithium structures and additional composite materials. Newer technologies like these should help Boeing and the Japanese consortium offset Airbus's head start in the 150-seat-class market, argue industry analysts, who expect the 7-7/YXX to be ready for delivery in the early 1990s, or three years after the A320.

Boeing and the three Japanese airframe makers have set no deadline for deciding whether to develop a new jetliner. The American company is still not

Japan's Real Gross National Product at Constant Prices (1975 Prices)

(in billions of yen, seasonally adjusted, quarterly totals and rates of growth at annual rates)

	1982	1983	January-March 1983	April-June 1983	July-September 1983	October-December 1983
Gross National Product	Y203,908.2 (3.3%)	Y210,112.7 (3.0%)	Y206,423.9 (0.7%)	Y208,683.0 (4.5%)	Y211,856.1 (6.2%)	Y213,496.9 (3.1%)
Personal Consumption Spending	106,945.2 (4.2%)	110,510.8 (3.3%)	109,712.5 (3.0%)	109,915.3 (0.7%)	110,848.1 (3.4%)	111,433.3 (2.1%)
Private Residential Construction	10,685.1 (-0.8%)	10,182.0 (-4.7%)	10,969.5 (-13.4%)	9,577.3 (-41.9%)	9,904.1 (14.4%)	10,464.2 (24.6%)
Private Fixed Nonresidential Investment	35,122.8 (3.5%)	35,810.5 (2.0%)	35,070.6 (-0.6%)	35,400.2 (3.8%)	36,002.0 (7.0%)	36,685.8 (7.8%)
Change in Business Inventories	1,798.9 (-1.6%)	551.9 (-69.3%)	53.4 (*)	884.8 (*)	400.4 (*)	869.6 (*)
Government Current Expenditures	19,258.5 (2.3%)	19,725.2 (2.4%)	19,502.5 (2.0%)	19,622.4 (2.5%)	19,843.5 (4.6%)	19,945.2 (2.1%)
Government Fixed Investment	18,474.8 (0.0%)	18,435.4 (-0.2%)	17,875.3 (-11.1%)	18,768.8 (21.6%)	18,932.2 (3.5%)	18,375.2 (-12.3)
Change in Government Inventories	-333.6 (-14.8%)	-334.4 (-0.2%)	-291.3 (*)	-206.0 (*)	-165.6 (*)	-676.3 (*)
Net External Sector	11,956.6 (5.7%)	15,231.3 (27.4%)	13,531.5 (36.4%)	14,720.2 (40.0%)	16,091.4 (42.8%)	16,399.9 (7.9%)
Exports of Goods and Services and Factor Income Received	40,424.0 (3.5%)	42,357.0 (4.8%)	39,891.5 (-1.7%)	41,108.1 (12.8%)	43,292.3 (23.0%)	44,949.2 (16.2%)
Imports of Goods and Services and Factor Income Paid	28,467.4 (2.5%)	27,125.8 (-4.7%)	26,360.0 (-4.3%)	26,387.9 (0.4%)	27,200.9 (12.9%)	28,549.3 (21.4%)

*Cannot be calculated or meaningless.

Source: Economic Planning Agency

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THE WORLD ECONOMY IN 1983

Summary

Statistics for 1983 present a quiltwork pattern of healthy nations and sick ones based upon data slowly coming to light. While the past year brought relief to many industrial nations, a number of developing countries are still in intensive care. International trade continued to shrink in overall terms during the year, although an expansionary trend appeared in the last few months. Movements of national interest rates, consumer prices and exchange rates revolved around an axis combining the U.S recovery and continued high American interest rates. Commodity and oil prices stabilized -- the former recovering previous strength while the latter lost ground. And international economic discussions were threatened by continued moves toward protectionism by large and small countries alike.

Economic Growth

The rebound of the industrial nations from the depths of the 1981-82 recession was 1983's most encouraging development (see Table 1 for statistics). Leading the way, the United States went from 1982's 2.0 percent decline to 3.3 percent growth. Even more impressive was Canada's performance, swinging from a 4.4 percent contraction to a 3.0 percent increase. According to December 1983 estimates by the Organization for Economic Cooperation and Development (OECD), real growth of OECD members as a whole should have turned in a 2.25 percent performance as opposed to 1982's disappointing 0.3 percent dip. Even if the powerhouse U.S. economy is left out of the picture, the industrial nations apparently posted a still weak, though improved, 1.5 percent gain, indicating stronger rates of growth in all the member nations except Italy. Reflecting this general upturn, the growth of industrial production in the OECD nations showed a turnaround, hitting 3.5 percent last year after a worrisome 5.0 percent drop in 1982.

Japan was strongly affected by the upturn in both Southeast Asia and the United States through trade links, the spillover effects from which has reawakened domestic demand. The Japanese economy performed more weakly than predicted in the first half of 1983, but compensated with a growth spurt in the third quarter and a solid gain in the fourth. While the recovery was export-led for the most part, business investment and housing construction began to pick up speed in the latter half of the year.

The European economies remained in low gear, constrained by weak domestic demand and austere fiscal policies. Only three countries -- Spain, Finland and Turkey -- broke the 2 percent growth level, although others made marginal gains over 1982. Members of the European Community (EC) doubled their 1982 performance, though this increase amounted to only a 1 percent overall increase. This aggravated political problems, especially British demands for a cut in the United Kingdom's contribution to the Community coffers. France and other EC members, suffering from weak growth too, were unwilling to relent, causing a near collapse of Community finances.

All these factors led to a worsening in unemployment in the industrial nations, with the exception of the United States. Over 33 million workers were idle in the OECD countries, representing 9 percent of the labor force. In some nations -- the United Kingdom, France, Italy and Canada -- the unemployment rate improved, although it was still high at between 8 and 12 percent; in other countries like Germany and Japan, the labor market continued to deteriorate. For these two, this was particularly bad news given their performances in previous decades, but it may reflect a changing demographic picture (e.g. in Japan, women are entering the job market in record numbers).

Inflation figures present a bright spot, although the cost of reduced inflation was high in terms of jobs and output. Again the United States stood out as a star performer, showing only a slight upward trend during its recovery. Japan continued to outdo everyone in this field, holding inflation down to around 2 percent. Even Britain, Italy and France managed to reduce their painfully high rates. The seven major industrial countries halved their combined 1982 inflation rate last year, and OECD nations as a whole dropped their total figure 2 percentage points.

Other areas of the world were unevenly influenced by the recovery of the developed nations. At extreme poles were Asia and Central/South America. In Asia, the recession in most cases bottomed out last year as suppliers worked feverishly to feed the import-hungry U.S. recovery. The average growth rate for the five ASEAN nations plus Korea, Taiwan and Hong Kong hit 5.3 percent -- above 1982's "low" of 3.6 percent, but still below the 6.8 percent level of 1981. The unemployment picture, built on scanty information only, was not quite as heartening. Partial figures indicate a slight increase in the average

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number of unemployed persons in nearly all Asian nations. Government policies are in a period of adjustment in many of these states, trying to cope with changing domestic and international economic conditions. In general, they are trying to restructure to produce higher quality products; the volume-oriented export approach followed in the boom decade of the 1970s is no longer considered viable, given the protectionist tendencies of their major trading partners.

At the other end of the scale, Latin American countries continued to be mired in the depths of a recession, unable to take advantage of stable commodity and energy prices. Sharply reduced or negative growth rates persisted, although the effects of stringent economic adjustment policies have begun to manifest themselves. Growth in the region was still slightly negative, but most governments, except Brazil, are predicting positive rates of growth for 1984. Inflation remains a major headache, as does unemployment, but new economic plans developed in conjunction with international monetary authorities may make a dent in both these problems. These plans refocus attention on domestic demand and adjustment of import and export mixes, coupled with renegotiation of outstanding debt. But the process of weaning themselves from heavy international borrowing will not be quick or politically palatable for Latin American countries -- witness the riots in Brazil when that government announced an end to inflation-indexed wage adjustments.

Inflation

World inflation made a slight comeback from 1982's drop of 1.7 percentage points, rising around one point according to International Monetary Fund (IMF) statistics. Commodity prices contributed to this rise by registering a 5 percent gain last year, although they are still 20 percent lower than the levels prevailing as recently as 1981. Energy prices stabilized at lower levels, helping the industrial nations' recovery.

Commodity Prices -- A review of the information in Table 2 shows prices for all commodities at just 80.1 percent of their 1980 levels. However, price levels for food, beverages and agricultural raw materials all rose between 1 and 8 percent, while prices for metals held steady. Normally when commodity prices rise, exporting nations benefit. In 1983, however, commodity exporting nations, especially in Africa, were unable to reap any benefits due to adverse factors, including bad weather, increased competition from new suppliers, and political upheaval. Should prices continue their upward trend, or at least remain at current levels, the exporting nations may indeed acquire the profits to meet their foreign exchange needs. Wheat prices held relatively steady, while prices for corn and soybeans, two other commodities of importance to U.S. trade, climbed.

Crude oil prices for various grades fell between 6 and 12 percent after the first quarter of 1983, with wide economic effects. Exporting countries have had to cut back on their ambitious government-funded development plans while scrambling to maintain unity on pricing and production. Oil importers, on the other hand, have seen their bills drop drastically but have also watched their exports to oil-producing countries fall. Through production and price discipline, the Organization of Petroleum Exporting Countries (OPEC) has stemmed the downward price trend for oil, but now wields considerably less power in world markets. Because importing countries are expected to continue to restrain energy demands through increased efficiency and conservation, depressed oil prices are likely to persist for the immediate future -- absent adverse developments in the Iran-Iraq war.

Consumer Prices -- Changes in this indicator around the world offer an uneven picture. The United States cut its inflation rate nearly in half, bringing it down to 3.2 percent from 6.2 percent in 1982. Following this example, Canada (5.8 percent) and Great Britain (4.8 percent) also chopped their rates almost in half, while France (9.3 percent), Italy (14.5 percent) and Germany (3.0 percent) knocked two or more percentage points off their 1982 figures. The effects of earlier deflationary policies in many of these countries are still apparent.

In Japan, the extremely low 1.8 percent consumer price increase was not a reflection of the efficacy of government policy, but rather of the considerable slack present in the economy and the cautious attitudes of consumers. Consumer spending was weak for almost the entire year and that, coupled with rising unemployment, prevented price pressures from building up. As in 1982, the problem for the government was how to stimulate the economy without more deficit spending or interest-rate cuts. While the government did cut the discount rate 0.5 percentage points (see next section), only capital outflows were encouraged -- not increased domestic investment.

Again setting themselves apart from other developing nations, the newly industrializing countries of Asia managed to generate substantial growth while holding prices in line during 1983. Despite high inflation in Indonesia, Hong Kong and the Philippines, an eight-country average shows a continued decline in price rises from 7.5 percent to 6.5 percent. In individual terms, Singapore and Korea took first and second place with rates of 1.2 percent and 3.4 percent, respectively. Malaysia, Thailand and the Philippines probably reduced their rates by one to three points, and Indonesia came in at the bottom with a twelve point rise.

The area with the worst inflation problem was South and Central America. The region posted a 130 percent-plus inflation rate for 1983, far worse than its 80 percent figure the year before. Countries with "moderate" inflation, such as Chile (27.3 percent), Colombia (19.7 percent) and Panama (about 2.5 percent), continued to make progress through cautious long-term planning. Argentina (348.8 percent), Brazil (142.0 percent) and Mexico (very close to 100 percent) are paying the price for losing their gamble on a rapid, externally fueled growth path. These three countries have implemented harsh restructuring plans and hope to bring inflation down to less lofty levels. The same problems that plague their growth plans, however, will continue to beset them in their search for lower inflation.

Interest Rates -- U.S. interest rates showed a moderate drop from the previous year, although they were still above pre-1979 oil shock levels. The Federal Reserve Board held the discount rate for banks at a steady 8.5 percent despite a slight downward trend in money market rates and Treasury bill yields. Lower borrowing rates, however, attracted consumers back into the housing and automobile markets, helping to spur the recovery.

In Japan, a 0.5 percentage point cut in the discount rate -- the first in almost two years -- was part of an economic stimulus package presented in October. While this cut depressed the rates for long- and short-term government bonds slightly, its largest influence was to help push Japan's net long-term capital outflow farther into the red -- over $17 billion in 1983. While it seems that the cut has helped small- and medium-sized firms to begin investing again, it certainly did not help push up the yen vis-a-vis the dollar.

Interest rate cuts were made in most European countries as well in an attempt to inject some life into their economies. Germany and Italy cut their discount rates by one percentage point and, as a result, bond yields and money market rates in France, Britain, Germany and Italy all fell by one or more percentage points. But much higher American interest rates continued to attract overseas capital, to the chagrin of European leaders. Accusations over foreign financing of profligate U.S. government spending were lobbed back and forth across the Atlantic, transmitting bitterness to other economic interactions.

Trade

A troublesome downward trend in the volume of trade continued in 1983, though at much reduced rates (see tables 3 and 4). According to IMF statistics, industrial country exports dropped 1.1 percent to $1.1 trillion and imports fell 1.8 percent to $1.2 trillion, with decreases in both the volume and unit value of trade. While negative, these declines represented an improvement over 1982's export drop of 5.2 percent and import contraction of 6.1 percent. Still, this downturn hampered Third World efforts to latch on to the coattails of the U.S. recovery.

Because of the faster rate of shrinkage in imports last year, the combined merchandise trade deficit for industrial countries narrowed again to $55.7 billion from $64.4 billion in 1982. This contraction, however, hides the fact that trade balances for six of the 13 industrial nations widened -- most prominently the United States, which went from a $42.6 billion gap to a $69.3 billion chasm; Britain ran a poor second, with its red-ink total widening from $2.7 billion to $8.8 billion. Countries registering the largest trade surpluses included Japan ($20.4 billion, up from just $6.9 billion the previous year), Germany ($16.5 billion) and Canada ($11.5 billion). France cut its deficit by almost $9 billion, though this still left it $10.5 billion in the hole.

Oil exporting nations also continued to cut back on trade, although this conclusion is based on data for only three quarters of 1983. This group's exports fell 17.8 percent to $131.7 billion from January to September, while its imports dropped to $106.1 billion -- a 7.3 percent decline. As a result, the trade surplus, which totaled $45.7 billion in 1982, fell to $25.6 billion last year. Low oil prices pushed revenues down for all oil exporters, but Saudia Arabia took a particularly hard fall when its export revenues plunged 40 percent in the first six months of the year, although they climbed back up during the third quarter. The Saudis also cut imports back a sharp 44 percent in response to these new conditions.

Non-oil exporting Third World countries, through stringent readjustment policies, reduced their imports during the first three quarters of 1983 by 8.3 percent to a total of $266.5 billion. They even managed to increase exports a small 0.9 percent to $233.9 billion, reducing their combined trade deficit to $32.9 billion from 1982's $58.8 billion (a 79 percent improvement). However, this bit of good news was overshadowed by continuing debt problems.

Debt Issues

Recovering their composure after the 1982 Mexican debt crisis, international financial sources looked at the $660 billion developing country debt with a more rational eye last year and managed to work out programs for the most endangered nations. The $660 billion figure represents only a modest 5.4 percent rise over 1982's total amount, reflecting a complex interaction of forces affecting the positions of the developing nations.

The budding U.S. recovery provided an import-hungry market, offering some solace to exporters of commodities and light manufactured goods. Improved terms of trade combined with austere economic adjustment policies helped many countries improve their current-account positions. Lower, stable energy prices were a positive factor for most debtor nations, though oil exporters such as Mexico and Venezuela were obviously affected adversely. The international reserves of non-oil exporting developing nations rose by a sharp 14 percent in 1983 to over $80 billion, outpacing the reserve growth of both the industrial countries (up 11.1 percent) and the oil-exporting nations (up 8.6 percent). Coupled with a simultaneous reduction in holdings of IMF Special Drawing Rights (SDRs) for reserve purposes, this development improved the appearance of Third World nations in the eyes of potential lenders. Finally, modest declines in international and U.S. interest rates helped to hold interest payments to between $60 and $70 billion in 1983.

The percentage of debt under non-concessionary terms remained high, topping 80 percent in 1983, and debtor nations have had to face up to refinancing conditions more in line with commercial standards. These tougher guidelines have led some governments to balk at the new lending terms -- unwilling or unable to risk the political upheaval they may generate. While official development assistance has not shrunk as a percentage of doners' GNP, private financing has become more difficult to obtain, forcing a search for alternatives. One of these has been the use of SDRs to meet balance-of-payments needs. Transactions "with designations," which are primarily for payments settlements, totaled $2.2 billion in 1983. For the first time since 1978, however, these were surpassed by transactions "without designation" (those for a wide variety of other bills) by $0.5 billion. This more active use of IMF instruments is in line with principles discussed during international meetings in 1983.

Exchange Rates

Global financial markets continued to be enchanted by the U.S. dollar, lured by the siren song of economic recovery and high real interest rates. According to indices compiled by the Commerce Department, the dollar gained 4.3 percent against a weighted-average basket of 14 industrial country currencies during the first three quarters of 1983, putting it 3.5 percent above its 1971 value, when it was thought to be overvalued. Against a basket of 67 currencies, the dollar looked even stronger -- rising 20 percent by the third quarter over the same period in 1982, which placed it nearly 60 percent higher than in 1971. Against individual currencies, the picture was hardly changed. The dollar was up 20 percent against the French franc and British pound and 4 percent over the German mark. Only the yen held its own against the dollar, standing its ground for the first half of the year before weakening a little in the third quarter and then settling in at a new plateau of Y233-Y234 to the dollar.

In view of Japan's rapidly rising trade surplus with the United States, one might have expected the yen to appreciate under the existing floating-rate system. But trade flows are counterbalanced by capital flows in the case of Japan. In 1983, Japan's basic balance (current-account balance plus net long-term capital flows) was just over $3 billion. While this was the first surplus in five years, it was not very large. The persistent broad differential in interest rates thus stymied any efforts by the yen to rise due to trade factors.

With its trade deficit with Japan expanding, the United States took a new tack on the problem of the "undervalued" yen. While publicly stating that the Japanese government was not intervening in currency markets to keep the yen depressed, American officials began urging Japan to internationalize its currency. As use of the yen in trade and international money markets grew, the argument went, demand for it would increase and its value would rise. Finance authorities were receptive in theory, but wanted to proceed very slowly to avoid altering the fundamental structure of the Japanese financial system and the government's attendant monetary policy tools. Loosening the government's control over the interest rate structure would not only cause policy problems, but would also be very costly in terms of interest payments on outstanding and new government bonds. Faced with such an unappetizing menu, Tokyo inched along while the Americans called for leaps and bounds (see JEI Report No. 10A, March 9, 1984).

Trade Discussions and Agreements

Tokyo Round Implementation -- The fourth annual round of tariff cuts agreed to in 1979 went into effect during the year. Despite the continued economic slump in most nations, the reductions were carried out with no backsliding by any party. While the cuts had only marginal effects on world trade, they were symbolically important during a period of increasing trade tension and protectionism.

In what is becoming an annual tradition, Japan again made unilateral tariff cuts urged on it by trading partners. Officials also offered to accelerate planned cuts in return for mutual reductions in specific items of interest, e.g. semiconductors. While American and European leaders hailed Japan's actions, they did not cease their petitioning for even more cuts.

Quadrilateral Meeting on Trade -- Following up on the fall 1982 ministerial meeting of the General Agreement on Tariffs and Trade (GATT), representatives from Japan, the United States, Canada and the European Community met in Tokyo on February 11 to discuss trade issues. While the meeting produced a communique full of generalities, it focused on maintaining free trade, the importance of cooperative action to deal with Third World debt problems and the benefits of initiating joint research projects. The meeting, held at the Japnese government's initiative, was timed to precede the Williamsburg summit of industrial nations.

Group of Thirty -- On April 22-24 in Tokyo, the Group of Thirty, an advisory body composed of representatives from developing and advanced countries in the IMF, held its annual meeting. In reviewing the current trade situation and world economic conditions, the group called on the United States to reduce its federal budget deficits and on Japan to pursue an expansionary fiscal policy to aid world recovery.

Trade Ministers Meeting -- In preparation for the Williamsburg summit, trade officials from Japan, Canada, the United States and Europe met in Brussels April 28-29 to discuss cooperation on pressing world problems. While again stressing the importance of free trade, the ministers also took up the problem of Third World debt.

OECD Meeting -- Combining their annual OECD executive council meeting with another meeting of finance and trade ministers, the industrial nations met in Paris on May 10. The current exchange-rate system was discussed along with other monetary matters. Japanese and European officials urged their American colleagues to change their stance on intervention in currency markets. The Europeans attacked high U.S. interest rates and budget deficits as a primary reason for their inability to pursue expansionary policies.

Williamsburg Summit -- On May 29-30, the leaders of seven industrial nations met to map out general policies on problems of mutual concern. In comparison to 1982's summit, the tone of the meeting was much more upbeat due to the world recovery. Numerous preparatory meetings and discussions served to smooth the way for a harmonious summit. As always, North-South issues, international cooperation and security issues were touched upon. Of particular note was the issue of sanctions against the Soviet Union, which continued to split the participants.

IMF/World Bank Annual Meeting -- Held in Washington September 27-30, the 1983 meeting was full of hard bargaining and resulted in an eighth increase in the IMF's capital resources. The Reagan administration again opposed such a move but was eventually pursuaded to compromise. Overall lending authority was increased by $11 billion, of which about half is to be provided by private banks. The increase represented a significant victory for the developing countries.

GATT Meeting -- One year after the ministerial conference, contracting parties to the GATT met in Geneva November 21-23 to review implementation of the two-year working program adopted in 1982. Of top importance to many participants was a review and reform of the GATT dispute-settlement mechanism, increasingly called into use in 1983. The GATT session also discussed the application of international trading rules to trade in services. The United States strongly supports liberalization of this market and is anticipating studies from other members of the organization before negotiations are held later this year.

In addition to these multilateral meetings, numerous bilateral conferences and visits took place. If trade problems remain unresolved, it is certainly not due to a lack of discussion.

Outlook

The world economy in 1983 shook off its torpidity as the American and Japanese economies began to hum along. In general, the year represented a bottoming-out of the recession, with recovery still very unevenly distributed. Major problems, like exchange-rate fluctuations and developing country debt, were held at arms length or propped up where necessary to prevent collapse. Opportunities for solution may occur in 1984 as the growing recovery gives decision makers more room to tackle these problems. International trade should end its downward drift as the dollar remains strong, influencing relative prices. While complaints over that strength persist, election year politics may prevent any bold U.S. initiatives. It may be good presidential politics not to rock the boat when things seem to be going so well, but the failure by leaders of the world's largest economy to address pressing problems may in the end exacerbate them. A prosperous 1984 may translate into complacent leadership, something no nation can afford.

For further information, contact Jon Choy.

The views expressed in this report are those of the author and do not necessarily represent those of the Japan Economic Institute.

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Table 1

Global Growth 1979-1983

(percentage change in real GDP, seasonally adjusted, annual rates)

	1979	1980	1981	1982	1983
World	3.6%	2.6%	1.7%	1.0%	1.5%*
Industrial Countries	3.2	1.3	1.5	-0.5	3.0*
United States (1)	2.8	-0.3	2.6	-1.9	3.3
Canada (1)	3.2	1.0	3.4	-4.4	3.0
Japan (1)	5.2	4.8	3.8	3.0	3.0
France (1)	3.3	1.1	0.3	1.6	0.5*
Germany (1)	4.0	1.8	-0.2	-1.1	1.2*
Italy	4.9	3.9	0.1	-0.3	-1.2
United Kingdom	2.0	-2.6	-1.3	2.4	3.0*
Developing Countries					
Oil Exporters	5.1	4.1	4.0*	NA	NA
Indonesia	6.3	9.9	7.9	2.2	2.2*
Nigeria	5.6	0.4	-5.3	-2.2	-2.6
Saudi Arabia	6.7	10.1	7.9	1.5	NA
Venezuela	0.8	-1.7	0.4	0.6	-4.0*
Non-Oil Exporters	4.9	8.5	2.4	-1.1	NA
Africa	3.6	6.4	4.8	NA	NA
Asia	1.4	5.1	6.1	NA	NA
China (2)	11.3	9.3	6.0	9.5	NA
Hong Kong	?.?	?.?	9.4	1.1	5.9
India	-4.9	6.9	5.7	NA	NA
Korea	7.1	-3.5	6.4	5.3	9.2*
Malaysia	9.3	7.8	7.1	4.2	5.6*
Philippines	7.5	4.4	3.7	2.8	1.4
Singapore	9.4	10.3	9.9	6.3	6.1
Thailand	6.1	5.8	6.3	4.2	5.8
Taiwan	8.1	6.6	5.0	3.9	7.1
Europe	4.3	1.8	2.2	0.5	1.0*
Hungary	2.7	0.6	2.5	2.8	0.5 - 1.0*
Yugoslavia	6.9	2.4	1.4	0.8	1.0*
Middle East	5.1	4.6	6.0	NA	NA
Egypt	8.7	NA	NA	NA	NA
Israel	3.7	2.7	3.4	1.2	1.1
Syria	5.3	9.2	8.8	NA	NA
Western Hemisphere	7.2	5.8	-0.1	-2.0*	-0.1*
Argentina	4.0	3.6	-6.3	-4.8	2.5*
Brazil	6.7	7.9	-3.5	1.0	-6.0*
Chile	8.3	7.8	5.7	-14.3	-0.5*
Colombia	5.1	4.2	2.5	2.5	1.1
Mexico	9.2	8.3	8.0	-0.2	-5.0

(1) Figures for real GNP growth
(2) Figures for real Net National Income Growth
* Estimated

Sources: IMF, Financial Statistics, 1983 Yearbook and March 1984; U.S. Commerce Department Country Desk Officers.

Table 2

World Prices 1979-1983

	Consumer Prices (percentage change over previous period)					Interest Rates (Central bank discount rate)				
	1979	1980	1981	1982	1983	1979	1980	1981	1982	1983
World	12.5%	15.7%	14.1%	12.3%	13.5%	6.8%	9.1%	12.7%	11.2%	8.6%
Industrial Countries	9.1	11.9	9.9	7.5	5.0	14.3	16.6	19.5	12.5	9.2
United States	11.3	13.5	10.4	6.2	3.2	12.0	13.0	12.0	8.5	8.5
Canada	9.1	10.2	12.4	10.8	5.8	14.0	17.3	14.7	10.0	10.0
Japan	3.6	8.0	4.9	2.6	1.8	6.2	7.2	5.5	5.5	5.0
France	10.8	13.3	13.3	12.1	9.3	9.5	9.5	9.5	9.5	9.5
Germany	4.1	5.5	5.9	5.3	3.0	6.0	7.5	7.5	5.0	4.0
Italy	14.7	21.2	17.8	16.5	15.0*	15.0	16.5	19.0	18.0	17.0
United Kingdom (1)	13.4	18.0	11.9	8.6	4.8*	13.0	15.1	13.0	11.5	9.6
Developing Countries										
Oil Exporters	10.2	12.9	13.5	7.8	9.0*					
Indonesia	11.4	9.7	14.6	6.7	NA					
Saudi Arabia	1.9	3.7	2.4	1.5	1.0*					
Non-Oil Exporters	27.1	32.4	31.6	34.3	55.0*					
Africa	17.6	16.9	20.1	15.4	18.5*					
Asia	6.6	11.7	8.8	5.4	NA					
Hong Kong	11.2	15.9	14.1	10.8	9.5*					
India	6.4	11.4	13.0	7.9	12.0*	9.0	9.0	10.0	10.0	10.0
Korea	18.3	28.7	21.3	7.3	3.4	15.0	16.0	11.0	5.0	5.0
Philippines	18.9	17.8	132.3	11.0	10.1					
Singapore	4.0	8.5	8.2	3.9	1.2					
Thailand	9.9	19.7	12.7	5.3	3.8	12.5	13.5	14.5	12.5	13.0
Taiwan	7.5	16.0	16.3	3.5	1.5*	11.0	11.0	12.4	9.7	7.2
Europe	24.5	35.6	24.7	24.0	24.0*					
Hungary (2)	8.9	9.1	4.6	6.9	7.5*	9.0	9.0	11.0	14.[illegible]	13.0
Yugoslavia	21.3	29.9	39.7	32.9	26.0*					
Middle East	25.2	40.4	34.9	38.6	39.0*					
Egypt	9.9	20.7	10.5	14.8	15.5*	9.0	11.0	12.0	13.0	13.0*
Israel	78.3	131.0	116.8	120.4	145.6					
Western Hemisphere	53.9	58.1	63.8	80.1	131.3					
Argentina	159.5	100.8	104.5	164.8	343.8					
Brazil (1)	52.7	82.8	105.6	98.0	142.0	32.6	33.0	58.6	67.6	85.0*
Chile	33.4	35.1	19.7	9.9	27.3					
Mexico (1)	18.2	26.4	27.9	58.9	100.0*	17.9	27.7	33.2	57.4	65.0*

(1) Treasury Bill rate shown for Interest Rates (2) Short-term Credit rate shown for Interest Rate * Estimate

Commodity Prices 1979-1983

(indexes of wholesale prices, 1980=100)
(pricing point in parentheses)

	1979	1980	1981	1982	1983	1983 by Quarters: I	II	III	IV
All Commodities	92.0	100.0	85.4	75.1	80.1	74.4	79.4	82.8	83.8
Food	76.9	100.0	86.4	68.5	74.5	66.1	74.2	80.0	77.8
Soybeans (Rotterdam)	100.5	100.0	97.4	82.5	92.0	80.6	84.2	107.1	108.5
Sugar (New York)	33.7	100.0	58.9	29.3	29.5	21.7	31.0	35.5	29.9
Wheat (U.S. Gulf ports)	89.9	100.0	99.0	91.0	92.0*	95.6	92.5	88.1	88.4
Agricultural raw materials	113.9	100.0	77.7	79.7	85.7	78.1	84.2	88.9	90.3
logs (Tokyo)	85.4	100.0	80.0	77.0	72.5	75.2	69.7	68.1	77.2
Rubber (Singapore)	89.0	100.0	78.0	60.0	74.2	66.0	75.8	77.7	77.3
Wool 64s (UK)	87.6	100.0	101.3	96.7	91.1	87.8	90.9	89.6	90.1
Metals	90.4	100.0	86.0	78.1	78.1	77.2	80.1	79.1	75.1
Aluminum (UK)	83.3	100.0	87.5	75.6	76.1	66.1	75.3	80.7	82.2
Copper (f.o.b. refinery)	91.0	100.0	82.9	71.9	76.8	79.6	81.1	77.9	68.6
Gold (London)	50.4	100.0	75.6	61.8	69.5	76.3	70.4	67.5	63.8
Petroleum (Ras Turnas)	60.2	100.0	113.4	116.8	102.2	110.1	99.6	99.6	99.7

Source: IMF Financial Statistics, March 1984.

Table 3

World Imports 1979-1983
(c.i.f. basis, in billions of dollars)

	1979	1980	1981	1982	1983	1983 by Quarters: I	II	III	IV
World	$1567.4	$1928.9	$1917.4	$1795.2	$1271.7***	$426.2	$460.3	$415.2	NA
Industrial Countries	1143.0	1369.6	1298.6	1219.9	1198.1	297.6	299.7	286.7	$314.2
United States	222.2	257.0	273.4	254.9	169.9	60.7	66.4	69.5	73.3
Canada	57.0	62.8	70.3	58.4	65.2	14.6	16.5	16.0	18.0
Japan	109.8	141.3	142.9	131.5	126.5	31.5	30.4	30.1	34.5
France	107.0	134.9	121.0	115.7	105.4	29.4	27.0	22.8	26.3
Germany	159.6	188.0	163.9	155.4	152.9	38.9	38.6	36.0	39.4
Italy	77.9	99.7	91.1	86.2	59.5***	20.6	20.1	18.8	6.5##
United Kingdom	99.6	115.5	102.7	99.6	100.2	24.8	26.0	24.1	25.2
Developing Countries									
Oil Exporters	97.9	464.9	158.9	165.7	106.1***	36.6	35.5	34.0	NA
Indonesia	7.2	10.8	13.3	16.9	5.2*	5.2	NA	NA	NA
Libya	5.3	6.7	8.4	8.3	5.3***	1.7	1.9	1.8	NA
Nigeria	10.2	16.6	20.9	14.8	6.1*	2.3	1.9	1.9	NA
Saudi Arabia	24.3	30.2	35.3	40.7	29.8*	10.1	10.6	9.1	NA
Venezuela	10.7	11.8	13.1	12.6	10.3	2.3	1.5	3.5	3.1
Non-Oil Exporters	311.6	407.6	438.0	389.8	266.4*	87.2	90.4	88.8	31.2##
Africa	37.5	55.1	57.5	49.4	31.4*	10.5	10.3	10.6	NA
Asia	116.4	149.7	163.9	156.6	117.9*	38.2	39.6	40.1	28.0#
China	15.7	19.9	21.6	18.9	14.9*	4.6	4.9	5.5	3.9#
Hong Kong	17.1	22.4	24.7	23.6	17.2*	5.2	6.0	6.1	6.3#
India	9.8	14.9	15.4	14.8	10.1*	3.7	3.0	3.3	1.0##
Korea	20.3	22.3	26.0	24.3	18.4*	6.0	6.1	6.3	4.9#
Malaysia	7.8	10.8	11.5	12.4	6.4**	3.2	3.2	2.3##	NA
Philippines	6.6	8.3	8.5	8.3	6.1*	2.0	2.1	2.0	0.7##
Singapore	17.6	24.0	27.6	28.2	21.2*	6.9	73	7.0	4.7#
Thailand	7.2	9.2	10.0	8.5	7.3*	2.4	2.4	2.5	0.8##
Taiwan	14.8	19.7	20.6	18.4	14.5*	4.8	4.6	5.2	3.9#
Europe	56.6	68.3	68.4	63.4	41.4*	14.1	14.6	12.6	9.4#
Hungary	8.7	9.2	9.2	8.9	8.6	1.8	2.2	1.9	2.6
Yugoslavia	12.7	15.1	15.8	13.4	8.5*	2.8	2.9	2.8	1.9#
Middle East	25.4	31.6	38.4	35.4	16.8**	8.3	8.5	NA	NA
Egypt	2.4	3.4	4.1	3.7	4.5**	2.1	2.4	NA	NA
Israel	8.7	9.7	10.2	9.6	4.6**	2.2	2.4	NA	NA
Syria	3.3	4.1	5.0	4.0	1.8**	1.1	0.7	NA	NA
Western Hemisphere	75.5	103.0	109.7	83.4	48.7*	15.4	16.6	16.7	NA
Argentina	6.7	10.5	9.4	5.3	4.0*	1.0	1.2	1.2	NA
Brazil	19.8	25.0	24.1	21.1	12.4*	4.1	4.0	4.3	1.4##
Chile	4.2	5.1	6.4	3.5	2.0*	0.6	0.7	0.7	0.3##
Colombia	3.2	4.7	5.2	5.5	3.7*	1.3	1.3	1.2	NA
Mexico	12.1	19.5	24.1	14.6	3.9**	1.6	2.3	NA	NA

* figures for first three quarters of 1983 only
** figures for first two quarters of 1983 only
*** figures for first quarter of 1983 only

# figures for first two months of quarter only
## figures for first month of quarter only

Source: IMF Financial Statistics, July, December, March 1984; Central Bank of China (Taiwan), Financial Statistics, February 1984.

Table 4

World Exports 1979-1983
(f.o.b. basis, in billions of dollars)

	1979	1980	1981	1982	1983	1983 by Quarters: I	II	III	IV
World	$1532.4	$1878.5	$1850.3	$1708.5	$1219.9*	$400.0	$416.5	$403.4	$154.6##
Industrial Countries	1052.7	1239.4	1218.5	1155.5	1142.4	281.9	287.7	268.0	304.8
United States	182.0	220.8	233.7	212.3	200.5	50.1	50.5	48.4	51.6
Canada	58.3	67.7	72.7	71.2	76.7	17.5	20.0	18.0	21.2
Japan	102.3	130.4	151.5	13[illegible]4	147.0	33.1	36.1	37.1	40.6
France	100.7	116.0	106.4	96.7	94.9	24.2	24.7	21.0	25.1
Germany	171.8	192.9	176.1	176.4	169.4	43.9	42.7	39.1	43.7
Italy	72.2	77.7	75.3	73.5	52.7*	17.6	18.3	16.7	6.4##
United Kingdom	86.4	110.1	102.2	97.0	91.4	22.3	22.8	22.0	24.5
Developing Countries									
Oil Exporters	211.0	297.0	277.4	215.0	131.7*	40.5	42.3	48.9	16.29##
Indonesia	15.6	23.9	25.2	22.3	4.6***	4.6	NA	NA	NA
Libya	16.1	21.9	15.6	13.9	8.4*	2.7	2.8	2.9	NA
Nigeria	17.6	26.5	19.5	16.4	10.2*	2.6	3.9	3.8	NA
Saudi Arabia	58.7	102.0	113.2	75.8	54.9	9.8	9.6	13.3	16.1
Venezuela	14.3	19.2	20.1	16.4	12.1*	4.6	3.9	3.6	1.2##
Non-Oil Exporters	252.7	322.1	332.5	316.8	233.9*	73.1	80.9	79.9	27.9##
Africa	42.9	55.1	47.0	40.8	29.1*	9.9	9.7	9.5	NA
Asia	97.1	122.3	131.5	131.0	99.5*	29.9	34.7	34.9	23.7#
China	13.6	18.1	21.6	21.9	15.8*	4.6	4.9	5.5	3.9*
Hong Kong	15.1	19.7	21.7	21.0	15.7*	4.5	5.3	5.9	4.1#
India	7.8	8.6	8.3	9.4	6.4*	2.3	2.2	1.9	0.68#
Korea	15.1	17.5	21.3	21.9	17.4*	4.8	6.2	6.3	4.6#
Malaysia	11.1	12.9	11.8	12.0	6.6**	3.1	3.5	2.4#	NA
Philippines	4.6	5.7	5.7	5.0	3.6*	1.2	1.2	1.2	NA
Singapore	14.2	19.4	21.0	20.8	17.1*	5.1	5.6	5.5	3.6#
Thailand	5.3	6.5	7.0	6.9	4.7*	1.6	2.6	1.5	0.5##
Taiwan	16.0	19.8	21.9	21.7	18.3***	5.0	6.4	6.9	4.3#
Europe	34.8	42.8	46.6	45.9	31.8*	10.5	11.2	10.1	7.7#
Hungary	7.9	8.6	8.7	8.6	8.8	1.8	2.2	1.9	2.8
Yugoslavia	6.5	9.0	10.9	10.3	7.0*	2.3	2.3	2.3	1.6#
Middle East	12.7	16.5	17.8	16.2	7.1**	3.5	3.5	NA	NA
Egypt	1.8	3.0	3.2	3.1	1.3**	0.7	0.6	NA	NA
Israel	4.5	5.5	5.7	5.3	5.1	1.3	1.2	1.1	1.5
Syria	1.6	2.1	2.1	2.0	0.9**	0.4	0.5	NA	NA
Western Hemisphere	65.4	85.0	88.6	82.7	62.1*	19.2	21.7	21.2	NA
Argentina	7.8	8.0	9.1	7.63	6.1*	1.9	2.1	2.1	NA
Brazil	15.2	20.1	23.3	20.2	16.3*	4.7	5.7	5.9	3.7#
Chile	3.9	4.7	3.9	3.8	2.9*	0.9	1.1	1.0	0.3##
Colombia	3.3	3.9	3.0	3.1	2.2*	0.7	0.7	0.8	NA
Mexico	9.0	15.6	19.4	21.6	10.2**	5.0	5.3	NA	NA

* figures for three quarters of 1983 only
** figures for first two quarters of 1983 only
*** figures for first quarter of 1983 only

figures for first two months of quarter only
figures for first month of quarter only

Source: IMF Financial Statistics, July, December, March 1984; Central Bank of China (Taiwan), Financial Statistics, February 1984

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JAPAN ECONOMIC INSTITUTE

JEI

REPORT

NO. 15A April 13, 1984

JAPAN'S EXPANDING U.S. MANUFACTURING PRESENCE: 1983 UPDATE

Summary

Japanese investment in American production facilities resumed its upward course in 1983, spurred by the rise in the yen's value as well as the U.S. economic rebound. The 32 manufacturing companies established or acquired by corporate investors boosted the year-end total of Japanese-affiliated manufacturers to 334 firms, including 25 in which Japanese parent companies have minority interests. The majority-owned businesses provide jobs for over 70,000 American workers, and they indirectly create employment opportunities for thousands of other people through their purchases of goods and services.

Japan's 1983 Investments in U.S. Manufacturing Facilities

Japanese investment activity in the U.S. manufacturing sector, on the upswing since 1978, got back on track last year after being derailed in 1982 by the combined forces of a depreciating yen, poor corporate earnings at home and depressed economic conditions in this country. Thirty-one manufacturing companies in which Japanese investors have a majority stake were established or acquired in 1983, compared with 1982's curtailed total of 20 such investments, a new study by the Japan Economic Institute (JEI) indicates. In addition, one Japanese corporation obtained a minority interest (defined as a shareholding of at least 10 percent but less than 50 percent) in an American manufacturing firm, although this was off from three the year before and 1981's tally, when eight of the 40 manufacturing investments credited to Japanese businesses involved minority shareholdings.

The appreciation of the yen from 1982's Y249 average to the Y238 level last year certainly gave Japanese corporations a greater incentive to invest in the United States since it reduced the yen cost of building plants here or of acquiring existing American companies and, at the same time, increased the dollar cost of supplying U.S. markets through exports. In addition, the U.S. economic recovery provided a more conducive environment for Japanese investment than 1982's business slump. Generally healthier corporate balance sheets, particularly for the small- and medium-size companies that form the backbone of Japanese investors in the United States, also helped to promote capital spending in the manufacturing area in 1983.

The 32 manufacturing companies identified in the 1983 update survey generally match the profile of Japan's earlier manufacturing investments in the United States, drawn from the 1980 benchmark study (see JEI Report No. 15, April 17, 1981) and two subsequent updates. There were some minor but interesting differences, though. For example, the investment mix between new plant construction and acquisitions, which had tilted more toward an even split in 1981 and 1982, reverted to the two-to-one ratio that characterized the approach of Japanese corporations establishing a production base in the United States in the period before 1981. Twenty-two of the 32 companies joining the ranks of Japanese-affiliated U.S. manufacturing businesses in 1983 were the result of new investments, including the production units set up by repeat investors like Fujitsu, Ltd., Oki Electric Industry Co., Ltd., Sony Corp., Honda Motor Co., Ltd., Nihon Radiator Co., Ltd. and Nippondenso Co., Ltd. and the manufacturing subsidiaries formed by such newcomers as Kanegafuchi Chemical Industry Co., Ltd., Ebara Corp. and Ishikawajima-Harima Heavy Industries Co., Ltd.

Though far outnumbered, some of the acquisitions that took place in 1983 overshadowed the new investments. Two involved fairly sizable transactions with Fortune 500 companies: Diamond Shamrock Corp.'s spinoff of its agricultural chemical and animal health operations into a joint venture with Showa Denko K.K. and the purchase of G.D. Searle and Co.'s specialty gas business by partners Nippon Sanso K.K. and UGI Corp. of Valley Forge, Pennsylvania. Another noteworthy acquisition was the purchase of the dominant U.S. maker of teenage lingerie by Wacoal Corp. The takeover of an American producer of welded steel fittings by Sumitomo Metal Industries, Ltd. and Sumitomo Corp. was notable because it illustrated the problems of foreign companies acquiring domestic manufacturers that do work for the Department of Defense -- problems that killed one purchase planned by a Japanese company in 1983 and contributed in part to another Japanese corporation selling a previously acquired U.S. maker. Perhaps even more significant than these four acquisitions was the purchase of Howmet Aluminum Corp. by its larger competitor, Alumax Inc., which is jointly owned by Mitsui & Co., Ltd., Nippon Steel Corp. and AMAX Inc. Through this transaction, the fast-rising number-four U.S. primary aluminum producer increased its primary capacity by half and strengthened its already strong fabricating capability.

Acquisitions were important as well because they partly skewed two aspects of the composite picture of Japanese-affiliated manufacturers in the United States. While all the companies newly set up by Japanese investors in 1983 have production facilities at a single location, as do the vast majority

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of established ventures, Alumax's Howmet Aluminum purchase and the acquisition of specialty gas producer Matheson Gas Products Inc. swelled the year's plant tally by a record 83 facilities. Also helping to alter this piece of the profile, though, were American Foods Corp., a Nakano Vinegar Co., Ltd. subsidiary, and Mitsui's Nutrius Inc. unit, both of which acquired their fourth domestic production base during 1983, and TNS Mills, Inc., a Tsuzuki Spinning Co., Ltd. affiliate, which opened its third U.S. manufacturing facility.

The typical employment scale of Japanese manufacturing operations in the United States was also affected by 1983's major acquisitions, since these companies have payrolls bigger than the under-50-person work forces characteristic of most existing or new majority-owned production ventures. This divergence obviously reflects the difference between well-established producers and firms that are just putting their plants in operation, but it also points up the fact that some companies listed as manufacturing concerns really only do a limited amount of assembly work. In a small but growing number of instances, however, relatively low employment numbers are the result of highly automated production processes.

Japan's Manufacturing Holdings in the United States: The New Count

At the end of 1983, Japanese corporate investors held controlling interests in 309 U.S. manufacturing companies, including nine firms scheduled to go onstream later this year. While small- and medium-size operations dot the list, some Japanese production subsidiaries qualify as big businesses, whether measured by sales, investment, employment or all three indicators. With sales of over $1 billion in 1982, Alumax, in fact, ranks among the top U.S. industrial concerns, placing 294 on Fortune's roster for that year and higher, no doubt, on the magazine's 1983 chart because of the acquisition of Howmet Aluminum, which reported sales of $0.5 billion-plus in 1982. An integrated aluminum manufacturer, Alumax has 91 plants and fabricating warehouses in 29 states and more than 13,000 people on its payroll.

Other big ventures include the two Japanese-owned automotive assembly plants in the United States: Honda of America Manufacturing, Inc., which plans to double the capacity of its Ohio car plant now that the facility is nearing full production with a work force approaching 2,000 employees, and Nissan Motor Manufacturing Corp. U.S.A., which has hired close to 2,000 workers at its Tennessee compact truck plant. Some of the consumer electronics companies also number among the largest Japanese manufacturing operations in this country. Sony Corp. of America employs 1,600 workers at its San Diego, California color television plant, while 1,500 people turn out cassette tapes at Sony Magnetic Products Inc.'s Alabama factory. Sanyo Manufacturing Corp., which has 2,000 employees on the payroll of its Arkansas plant, produces color televisions and microwave ovens. The same two product lines are manufactured as well by the 1,350 production workers at Matsushita Industrial Co.'s facility in the Chicago, Illinois suburbs. Rounding out the list of big investments is Kyocera International, Inc., which employs 1,700 people at three plants in San Diego, California that make ceramic packages for integrated circuits and electronic components.

The 309 U.S. manufacturing companies in which Japanese investors owned a majority stake at year-end 1983 had 479 plants in operation or under construction at that time. California, home to 128 plants concentrated in the industrial and consumer electronics field, continued to run away with top honors in the stiff competition among states for Japanese investment, despite a renewed chorus of complaints about the state's unitary tax system. Helped by Alumax's purchase of Howmet Aluminum, Texas leapfrogged two positions into second spot with 35 Japanese-owned manufacturing facilities. Holding on to third place was New Jersey, the site of 27 plants, although Georgia, with 25 factories, was nipping at its heels. Next on the roll were Alaska and Pennsylvania, both of which had attracted 21 plants, followed by Illinois and Washington, with 20 facilities each. The list of other states with relatively large numbers of Japanese-affiliated production operations -- North Carolina (19), Michigan (15), New York (15), Ohio (13), Tennessee (11) and Indiana (10) -- proves once again that, outside of California, Japanese corporate investors in the United States have not shown the marked preference for Sunbelt or southeastern U.S. production locations that many American observers ascribe to them.

Color televisions, microwave ovens, integrated circuits, communications equipment, bearings and machine tools are among the product lines where Japanese companies have the largest number of U.S. manufacturing facilities. In deciding to supply these products from onshore plants rather than from factories in Japan, producers have been influenced in varying degree by the need to cut transportation costs, streamline distribution, maintain closer customer contact and offset the yen's appreciation. For many makers of these products, though, the threat of a protectionist backlash or the erection of trade barriers has tipped the scales in favor of U.S. production.

In other product lines where Japanese investors are well represented, like fish processing, lumber and wood products and processed foods, the availability of raw materials has been a major drawing card. Makers of plastic products and certain chemicals have been attracted to this country by its less expensive chemical intermediates, while lower utility rates in tandem with relatively new plant and equipment have helped make Alumax a profitable investment for Mitsui and Nippon Steel. Moreover, an expanding number of Japanese companies, faced with limited opportunities for growth at home, have moved into the U.S. manufacturing sector, primarily through takeovers, to boost earnings. Finally, parts suppliers are increasingly setting up American production facilities, drawn here by the onshore manufacturing activities of the Japanese end users of their products and/or big contracts from U.S. companies. This trend is particularly obvious in the automotive field where at least 17 Japanese-affiliated component manufacturers are in operation or have plants under construction, but it is also noticeable in other industries like semiconductors.

Whatever the motives for building or acquiring domestic production facilities, Japanese-affiliated manufacturing companies have become an important source of jobs for American workers, both directly and indirectly through their purchases of goods and services. The 300 majority-owned manufacturing concerns already in operation have approximately 73,000 people on their payrolls, including roughly 7,400 added as a result of 1983 investment activities. Another 800 or so positions will be generated when the nine factories still under construction go onstream in coming months.

The estimated total employment figure for 1983 is perhaps subject to a wider margin of error than earlier counts. Many of the individual numbers pre-date the 1981-82 recession, and these Japanese subsidiaries were no more immune to depressed business conditions than other American producers. Moreover, even though the recovery has been in full swing for nearly a year, established firms, like most U.S. manufacturers, have been cautious about bringing back laid-off workers or hiring new people. In addition, the ten majority-owned fish processors, normally big seasonal employers, have been hurt by erratic or poor catches and slumping salmon exports to Japan, and they have slashed hiring. Whitney-Fidalgo Seafoods, Inc., for example, plans to hire only 1,000 people for the upcoming peak season compared to the 3,000 workers on its payroll just two years ago.

On the plus side, though, a sizable number of Japanese-affiliated manufacturing companies are of fairly recent origin, and they are adding workers as their plants are geared up toward full-capacity operation. Since the start of 1984, moreover, several Japanese firms have started U.S. plant construction or finalized acquisitions, while others plan to break ground before the end of the year. By itself, the joint car manufacturing venture between Toyota Motor Corp. and General Motors Corp., now awaiting final antitrust clearance from the government, will add 3,000 jobs to the employment tally when its Fremont, California assembly plant becomes operational in late 1984.

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The views expressed in this report are those of the author and do not necessarily represent those of the Japan Economic Institute.

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JEI's Investment Survey

The Japan Economic Institute's study of U.S. manufacturing companies owned by or affiliated with Japanese investors was limited to firms that had plants in operation or under construction on December 31, 1983. This cut-off date eliminated a number of companies that had definite plans to build production facilities in the United States but had not broken ground by year end, as well as several acquisitions that had not been finalized.

The results of the 1983 update survey are contained in three appendices, which also include the information from the two previous updates. The main appendix gives, in alphabetical order, the full name of each U.S. manufacturing company owned wholly or in part by Japanese investors; the location of its plant or plants; the full name of what is known as the company's ultimate beneficial owner(s); the share of stock held by the owner(s); whether the company was a new investment or an acquisition; the company's major product line(s); the approximate or actual number of people employed by the company, if available; and when the company began production or, in the case of acquisitions, when the company was bought by Japanese investors. The second appendix presents a state-by-state listing of plant locations, while the third groups the products made in terms of four-digit Standard Industrial Classification codes.

A fourth appendix lists companies that have gone out of business and plants that have closed since the 1980 benchmark and the 1981 and 1982 updates were published. This information was obtained from publicly available sources. No attempt was made to resurvey all the previously listed companies.

Appendix 1: Alphabetic Listing of U.S. Manufacturing Affiliates of Japanese Companies

Company	Plant Location	Parent	Share	New or Acquired	Product Line	Employees	Year Plant Opened or Acquired
ALCOA-NEC Communications Corp.	Sidney, OH	NEC Corp.	49%	New	Satellite television receiving systems	15	1982
		Aluminum Co. of America	51				
ATR Wire and Cable Co.	Danville, KY	Tokyo Rope Manufacturing Co., Ltd.	60	Acquired	Steel cord/bead wire for tires	420	1981
		Mitsubishi Corp.	20				
		C. Itoh & Co., Ltd.	20				
Alloy Tool Steel Inc.	Santa Fe Springs, CA	Nissho Iwai Corp.	35	New	Steel processing	30	1974
		Nippon Koshuha Steel Co., Ltd.	35				
Alloy Tool Steel of Texas Inc.	Hutchins, TX	Nissho Iwai Corp.	18	New	Steel processing	5	1981
		Nippon Koshuha Steel Co., Ltd.	18				
Alpha Biochemical Corp.	Richland, WA	Kanegafuchi Chemical Industry Co., Ltd.	100	New	Binder for fish feed	20	1982
Alumax Inc.		Mitsui & Co., Ltd.	45	Acquired			1974
		Nippon Steel Corp.	5				
		AMAX Inc.	50				
Alumax Extrusions, Inc.	Catawaba, NC	Alumax Inc.	100	New	Aluminum extruded shapes	n.a.	1981
Alumax Fabricated Products, Inc.	Tempe, AZ	Alumax Inc.	100	Acquired	Aluminum products for housing aftermarket	n.a.	1981
Alumax Fabricated Products, Inc.	Anaheim, CA	Alumax Inc.	100	Acquired	Aluminum products for housing aftermarket	n.a.	1981
Alumax Fabricated Products, Inc.	Sacramento, CA	Alumax Inc.	100	Acquired	Aluminum products for housing aftermarket	n.a.	1981
•Howmet Aluminum**	Rockwall, TX	Alumax Inc.	100	Acquired	Secondary aluminum slab/billet	n.a.	1983
•Howmet Aluminum**	Philadelphia, PA	Alumax Inc.	100	Acquired	Recycled aluminum scrap	n.a.	1983
•Howmet Aluminum**	Arlington, TX	Alumax Inc.	100	Acquired	Recycled aluminum scrap	n.a.	1983
•Howmet Aluminum**	Houston, TX	Alumax Inc.	100	Acquired	Recycled aluminum scrap	n.a.	1983
•Howmet Aluminum**	Hawesville, KY	Alumax Inc.	100	Acquired	Aluminum sheet/coil	n.a.	1983
•Howmet Aluminum**	Lancaster, PA	Alumax Inc.	100	Acquired	Aluminum sheet/coil	n.a.	1983
•Howmet Aluminum**	Atlanta, GA	Alumax Inc.	100	Acquired	Aluminum/copper/steel processing	n.a.	1983
•Howmet Aluminum**	Fraser, MI	Alumax Inc.	100	Acquired	Aluminum/copper/steel processing	n.a.	1983
•Howmet Aluminum**	Grand Rapids, MI	Alumax Inc.	100	Acquired	Aluminum/copper/steel processing	n.a.	1983
•Howmet Aluminum**	Kansas City, MO	Alumax Inc.	100	Acquired	Aluminum/copper/steel processing	n.a.	1983
•Howmet Aluminum**	Brecksville, OH	Alumax Inc.	100	Acquired	Aluminum/copper/steel processing	n.a.	1983
•Howmet Aluminum**	Mesquite, TX	Alumax Inc.	100	Acquired	Aluminum/copper/steel processing	n.a.	1983
•Howmet Aluminum**	Rockwall, TX	Alumax Inc.	100	Acquired	Aluminum extruded shapes	n.a.	1983
•Howmet Aluminum**	Lakeland, FL	Alumax Inc.	100	Acquired	Aluminum products for mobile homes/ recreational vehicles	n.a.	1983
•Howmet Aluminum**	Tifton, GA	Alumax Inc.	100	Acquired	Aluminum products for mobile homes/ recreational vehicles	n.a.	1983
•Howmet Aluminum**	Elkhart, IN	Alumax Inc.	100	Acquired	Aluminum products for mobile homes/ recreational vehicles	n.a.	1983
•Howmet Aluminum**	Hutchinson, KS	Alumax Inc.	100	Acquired	Aluminum products for mobile homes/ recreational vehicles	n.a.	1983
•Howmet Aluminum**	Sanford, NC	Alumax Inc.	100	Acquired	Aluminum products for mobile homes/ recreational vehicles	n.a.	1983

Company	Plant Location	Parent	Share	New or Acquired	Product Line	Employees	Year Plant Opened or Acquired
•Howmet Aluminum**	Leola, PA	Alumax Inc.	100	Acquired	Aluminum products for mobile homes/ recreational vehicles	n.a.	1983
•Howmet Aluminum**	Alvarado, TX	Alumax Inc.	100	Acquired	Aluminum products for mobile homes/ recreational vehicles	n.a.	1983
•Howmet Aluminum**	Tucker, GA	Alumax Inc.	100	Acquired	Aluminum rain-carrying components/ other building products	n.a.	1983
•Howmet Aluminum**	Lancaster, PA	Alumax Inc.	100	Acquired	Aluminum rain-carrying components/ other building products	n.a.	1983
•Howmet Aluminum**	Grand Prairie, TX	Alumax Inc.	100	Acquired	Aluminum rain-carrying components/ other building products	n.a.	1983
•Howmet Aluminum**	Vancouver, WA	Alumax Inc.	100	Acquired	Aluminum rain-carrying components/ other building products	n.a.	1983
•Howmet Aluminum**	Cerritos, CA	Alumax Inc.	100	Acquired	Aluminum products for housing aftermarket	n.a.	1983
•Howmet Aluminum**	Fremont, CA	Alumax Inc.	100	Acquired	Aluminum products for housing aftermarket	n.a.	1983
•Howmet Aluminum**	Lithonia, GA	Alumax Inc.	100	Acquired	Aluminum products for housing aftermarket	n.a.	1983
•Howmet Aluminum**	Bedford Park, IL	Alumax Inc.	100	Acquired	Aluminum products for housing aftermarket, aluminum rain-carrying components/other building products	n.a.	1983
•Howmet Aluminum**	Kansas City, MO	Alumax Inc.	100	Acquired	Aluminum products for housing aftermarket	n.a.	1983
•Howmet Aluminum**	Harrisburg, PA	Alumax Inc.	100	Acquired	Aluminum products for housing aftermarket	n.a.	1983
•Howmet Aluminum**	Mesquite, TX	Alumax Inc.	100	Acquired	Aluminum products for housing aftermarket	n.a.	1983
•Howmet Aluminum**	Hayward, CA	Alumax Inc.	100	Acquired	Aluminum bath enclosures	n.a.	1983
•Howmet Aluminum**	Tucker, GA	Alumax Inc.	100	Acquired	Aluminum bath enclosures	n.a.	1983
•Howmet Aluminum**	Dallas, TX	Alumax Inc.	100	Acquired	Aluminum bath enclosures	n.a.	1983
•Howmet Aluminum**	Dallas, TX	Alumax Inc.	100	Acquired	Aluminum products for commercial remodeling	n.a.	1983
•Howmet Aluminum**	Leola, PA	Alumax Inc.	100	Acquired	Aluminum garage doors	n.a.	1983
•Howmet Aluminum**	Magnolia, AR	Alumax Inc.	100	Acquired	Aluminum spectator seating, scaffolding, ceiling grid systems, custom fabricated work	n.a.	1983
Kawneer Co., Inc.	Springdale, AR	Alumax Inc.	100	New	Architectural aluminum products	n.a.	1981
•Kawneer Co., Inc.	Aurora, CO	Alumax Inc.	100	New	Architectural aluminum products	n.a.	1983
Kawneer Co., Inc.	Cleveland, OH	Alumax Inc.	100	Acquired	Architectural aluminum products	n.a.	1974
Kawneer Co., Inc.	Houston, TX	Alumax Inc.	100	New	Architectural aluminum products	n.a.	1982
Amano-International Enzyme Co., Inc.	Troy, VA	Amano Pharmaceutical Co., Ltd.	47.5	New	Enzymes	7	1981
		Boehringer International Enzyme Inc.	47.5				
•American Foods Corp.	Gardena, CA	Nakano Vinegar Co., Ltd.	100	Acquired	Vinegar	75	1983
American Foods Corp.	Guasti, CA	Nakano Vinegar Co., Ltd.	100	Acquired	Vinegar, cooking wines		1981
American Foods Corp.	San Francisco, CA	Nakano Vinegar Co., Ltd.	100	Acquired	Vinegar, cooking wines, sauces		1981
American Foods Corp.	Watsonville, CA	Nakano Vinegar Co., Ltd.	100	Acquired	Vinegar		1981
Amsnack, Inc.	Stockton, CA	Chuoken Sembei Inc.	100	New	Rice crackers	11	1981

Company	Plant Location	Parent	Share	New or Acquired	Product Line	Employees	Year Plant Opened or Acquired
Bellemar Parts Industries Inc.	Marysville, OH	Honda Motor Co., Ltd. Sankei Giken Kogyo Co., Ltd. Tokyo Seat Co., Ltd.	80 10 10	New	Automotive seat assemblies, exhaust silencer systems	200	1982
Bering Sea Fisheries, Inc.	Mouth of Yukon, AK	Marubeni Corp.	25	Acquired	Frozen fish	40	1972
Bio Kyowa Inc.	Cape Girardeau, MO	Kyowa Hakko Kogyo Co., Ltd.	100	New	Lysine (feedstuff amino acid additive)	60*	1984*
Bridgestone Tire Manufacturing (U.S.A.), Inc.	LaVergne, TN	Bridgestone Tire Co., Ltd.	100	Acquired	Radial truck tires	900	1982
Bunmeido of Hawaii Ltd.	Honolulu, HI	Bunmeido Confectionery Co., Ltd.	100	New	Bakery products	8	1965
CTY Corp.	San Marcos, CA	Taiyo Yuden Co., Ltd.	100	New	Axial capacitors	40	1981
•Calsonic Manufacturing Corp.	Shelbyville, TN	Nihon Radiator Co., Ltd.	100	New	Automotive air conditioners	n.a.	1983
Caribe Isoprene Corp.	Penuelas, PR	Nippon Zeon Co., Ltd. Mitsubishi Corp.	50 40	New	Isoprene monomer, dicyclopentadiene, piperylene	50	1975
Caribe Tuna Inc.	Ponce, PR	Mitsubishi Corp.	100	Acquired	Canned fish	500	1981
Cast Forge Co.	Howell, MI	Nippon Light Metal Co., Ltd. Kelsey-Hayes Co.	20 80	Acquired	Aluminum wheels/other die-cast automotive parts	100	1982
Cathra International Corp.	St. Paul, MN	Gunze Sangyo, Inc. Tokyo Lease Co., Ltd.	30	Acquired	Medical diagnostic equipment	22	1981
Chickasha Cotton Oil Co.	Casa Grande, AZ	Toyo Menka Kaisha, Ltd.	100	Acquired	Cottonseed oil	70	1981
Chickasha Cotton Oil Co.	Clinton, OK	Toyo Menka Kaisha, Ltd.	100	Acquired	Cottonseed oil	70	1981
Chickasha Cotton Oil Co.	Harlingen, TX	Toyo Menka Kaisha, Ltd.	100	Acquired	Cottonseed oil	70	1981
Chickasha Cotton Oil Co.	Lamesa, TX	Toyo Menka Kaisha, Ltd.	100	Acquired	Cottonseed oil	70	1981
Coca-Cola Bottling Co.	Salem, NH	Kirin Brewery Co., Ltd.	100	Acquired	Soft drinks	187	1982
Concise Casting Corp.	Hayward, CA	Hitachi Metals, Ltd.	100	Acquired	Aluminum castings	95	1981
•Cryodynamics Co.-Ebara Group	Sacramento, CA	Ebara Corp.	70	New	Pumps for low-temperature liquids	30	1984
Daiichiya Love's Bakery Inc.	Honolulu, HI	Daiichiya Baking Co., Ltd.	100	Acquired	Bakery products	240	1981
Daiwa Golf Co.	Gardena, CA	Daiwa Seiko, Inc.	100	New	Golf clubs	20	1981
•Data Ray Corp.	Boulder, CO	Nippon Chemi-Con Corp.	75	Acquired	CRT display modules	50	1983
Diamond Plastics Corp.	Grand Island, NE	Mitsubishi Corp.	100	Acquired	Polyvinyl chloride pipes	115	1982
Diamond Plastics Corp.	Lubbock, TX	Mitsubishi Corp.	100	Acquired	Polyvinyl chloride pipes		1982
•Digital Audio Disc Corp.	Terre Haute, IN	Sony Corp. CBS Inc.	50 50	New	Digital audio discs	200*	1984*
Dutch Harbor Seafoods Co., Inc.	Dutch Harbor, AK	Nippon Suisan Kaisha Ltd.	25	New	Frozen fish	100	1976
Economic Salon, Ltd.	New York, NY	Keizai Salon Co., Ltd.	100	New	Periodicals publishing	10	1971
Emway Inc.	Clackamas, OR	Restaurant Skylark Co., Ltd.	51	New	Frozen potato products	10	1982
•FEC Inc.	Madison Heights, MI	Dai-Ichi Dentsu Co., Ltd.	100	New	Electronic fastening systems	25	1983
First Metals, Inc.	Houston, TX	Toyo Menka Kaisha, Ltd.	100	New	Steel processing	22	1978
Forman Industries Inc.	Hayward, CA	Kawasho Corp.	100	Acquired	Sheet-metal ducts	35	1979
Fotomat Corp.	St. Louis, MO	Konishiroku Photo Industry Co., Ltd.	20	Acquired	Photographic chemicals	30	1982
Fotomat Corp.	Springdale, OH	Konishiroku Photo Industry Co., Ltd.	20	Acquired	Kiosks	10	1982

Company	Plant Location	Parent	Share	New or Acquired	Product Line	Employees	Year Plant Opened or Acquired
Fuji Cone Inc.	Clinton, NC	Fuji Cone Works Ltd. International Jensen Inc.	50 50	New	Paper cones for stereo speakers	85	1981
•Fuji Foods Inc.	Browns Summit, NC	Fuji Foods Corp.	100	New	Beef/chicken extracts for soup stocks	16	1983
Fujitec Industries, Inc.	Lebanon, OH	Fujitec Co., Ltd.	100	New	Elevators, escalators	500	1983
•Fujitsu America, Inc.	Palm Bay, FL	Fujitsu, Ltd.	100	New	Cable assemblies, power supply units/related components for computers/peripheral equipment	50	1983
•Fujitsu America, Inc.	Richardson, TX	Fujitsu, Ltd.	100	New	Fiber-optic communications equipment, multiplexers, microwave radios	35	1984
Halco Fence & Wire Co.	Dallas, TX	C. Itoh & Co., Ltd.	100	Acquired	Chain link	200	1980
Harbor Seafood Co., Inc.	Wrangell, AK	Alaska Pulp Co., Ltd.	100	Acquired	Canned/frozen fish	80	1974
Harnischfeger Corp.	Cedar Rapids, IA	Kobe Steel, Ltd.	10	Acquired	Hydraulic truck/rough-terrain cranes, lattice-boom truck/crawler cranes	3,200	1981
Harnischfeger Corp.	Simpsonville, SC	Kobe Steel, Ltd.	10	Acquired	Monorail systems		1982
Harnischfeger Corp.	Oak Creek, WI	Kobe Steel, Ltd.	10	Acquired	Overhead traveling cranes, hoists, material-handling systems		1981
Harnischfeger Corp.	W. Milwaukee, WI	Kobe Steel, Ltd.	10	Acquired	Electric mining shovels, hydraulic excavators, draglines, overhead traveling cranes, lattice-boom truck/crawler cranes		1981
High Voltage Breakers, Inc.	Norcross, GA	Hitachi, Ltd. General Electric Co.	67 33	New	Circuit breakers for power plants/transmission lines	15	1982
Hitachi Consumer Products of America Inc.	Anaheim, CA	Hitachi, Ltd.	100	New	Projection color television sets	100	1982
•Hi-Tek Corp.	Garden Grove, CA	Minebea Co., Ltd.	100	Acquired	Computer keyboards	130	1983
•Honda Power Equipment Manufacturing Inc.	Swepsonville, NC	Honda Motor Co., Ltd.	100	New	Lawnmowers	80*	1984*
Honma Golf, Inc.	Honolulu, HI	Honma Corp.	100	New	Golf clubs	36	1978
•House Foods and Yamauchi Inc.	Los Angeles, CA	House Food Industrial Co., Ltd.	50	Acquired	Tofu/related soybean products	40	1983
IDEC Systems & Controls Corp.	Santa Clara, CA	Izumi Denki Corp.	100	New	Relays, sockets, switches/other electrical industrial components	70	1975
IKS American Corp.	Gardena, CA	Izumoto Seiko Co., Ltd.	100	New	Ball bearings	18	1974
IMC Magnetics Corp.	Westbury, NY	Minebea Co., Ltd.	100	Acquired	Fans/blowers for communications/computer equipment	n.a.	1974
International Leadframe Corp.	Sunnyvale, CA	Mitsui Mfg. Co., Ltd.	100	New	Lead frames for integrated circuits	21	1980
International Titanium Inc.	Moses Lake, WA	Ishizuka Research Institute Mitsui & Co., Ltd.	50 30	New	Titanium sponge	120	1982
Kaga USA Inc.	Fountain Valley, CA	Kaga Tsushin Kogyo Co., Ltd.	100	New	Lead frames/other metal parts for integrated circuits	10	1982
•Kaneka Texas Corp.	Bayport, TX	Kanegafuchi Chemical Industry Co., Ltd.	100	New	Methyl methacrylate-butadiene-styrene resins	80*	1984*

Company	Plant Location	Parent	Share	New or Acquired	Product Line	Employees	Year Plant Opened or Acquired
•Kato Spring Inc.	Huntington Beach, CA	Kato Spring Works Co., Ltd.	100	New	Precision springs	10	1983
Kato Spring of Georgia Inc.	Norcross, GA	Kato Spring Works Co., Ltd.	100	New	Precision springs	8	1982
Kel-Am, Inc.	Eldon, MO	Kel Corp.	100	New	Connectors	30	1978
Key Pharmaceuticals, Inc.	Miami, FL	Mitsubishi Chemical Industries, Ltd.	10	Acquired	Ethical pharmaceuticals	1,150	1979
•Kibun Corp. of North Carolina	Raleigh, NC	Kibun Co., Ltd.	100	New	Frozen seafood	16*	1984*
•Kibun Corp. of Washington	Redmond, WA	Kibun Co., Ltd.	100	New	Frozen seafood	16	1983
•Kikusui International Corp.	Gardena, CA	Kikusui Electronics Corp.	100	New	Oscilloscopes	20	1983
Kodiak King Crab, Inc.	Juneau, AK	Marubeni Corp. Ocean Beauty Seafoods Inc.	n.a. n.a.	New	Frozen fish	300	1973
Kodiak King Crab, Inc.	Kodiak, AK	Marubeni Corp. Ocean Beauty Seafoods Inc.	n.a. n.a.	New	Canned/frozen fish		1973
Lafayette Metal Service Corp.	Long Beach, CA	C. Itoh & Co., Ltd. Nuova Italsider S.p.A.	81 19	Acquired	Steel processing	60	1982
LeBlond Makino Machine Tool Co.	Cincinnati, OH	Makino Milling Machine Co., Ltd. LeBlond Inc.	51 49	Acquired	Numerically controlled lathes, machining centers, numerical controls	950	1981
MCI Inc.	Fort Lauderdale, FL	Sony Corp.	100	Acquired	Recording studio equipment	384	1982
MCI Optinix Inc.	Morristown, NJ	Mitsubishi Chemical Industries, Ltd.	100	Acquired	X-ray intensifying screens for medical use	15	1981
Machine Specialties Co.	Lincoln, RI	Bando Chemical Industries, Ltd.	100	Acquired	Pulleys	30	1979
Master Fence Fittings Inc.	La Habra, CA	C. Itoh & Co., Ltd.	100	Acquired	Fittings for metal fencing	300	1977
•Matheson Gas Products Inc.	Cucamonga, CA	Nippon Sanso K.K. UGI Corp.	50 50	Acquired	Specialty gases, specialty gas handling equipment	400	1983
•Matheson Gas Products Inc.	Newark, CA	Nippon Sanso K.K. UGI Corp.	50 50	Acquired	Specialty gases, specialty gas handling equipment		1983
•Matheson Gas Products Inc.	Morrow, GA	Nippon Sanso K.K. UGI Corp.	50 50	Acquired	Specialty gases, specialty gas handling equipment		1983
•Matheson Gas Products Inc.	Joliet, IL	Nippon Sanso K.K. UGI Corp.	50 50	Acquired	Specialty gases, specialty gas handling equipment		1983
•Matheson Gas Products Inc.	Gonzales, LA	Nippon Sanso K.K. UGI Corp.	50 50	Acquired	Specialty gases, specialty gas handling equipment		1983
•Matheson Gas Products Inc.	Gloucester, MA	Nippon Sanso K.K. UGI Corp.	50 50	Acquired	Specialty gases, specialty gas handling equipment		1983
•Matheson Gas Products Inc.	E. Rutherford, NJ	Nippon Sanso K.K. UGI Corp.	50 50	Acquired	Specialty gases, specialty gas handling equipment		1983
•Matheson Gas Products Inc.	Twinsburg, OH	Nippon Sanso K.K. UGI Corp.	50 50	Acquired	Specialty gases, specialty gas handling equipment		1983
•Matheson Gas Products Inc.	La Porte, TX	Nippon Sanso K.K. UGI Corp.	50 50	Acquired	Specialty gases, specialty gas handling equipment		1983

Company	Plant Location	Parent	Share	New or Acquired	Product Line	Employees	Year Plant Opened or Acquired
Matsushita Electric Components Co.	Palo Alto, CA	Matsushita Electric Industrial Co., Ltd.	100	New	Integrated circuits	35	1983
Matsushita Electric of Puerto Rico, Inc.	Caguas, PR	Matsushita Electric Industrial Co., Ltd.	100	New	Stereo speakers, record changers, speaker boxes, motors for phonographs/audio equipment	720	1965
Megatool Inc.	Buena Park, CA	Union Tool Co., Ltd.	51	New	Carbide drills	17	1982
Memorex DIC Corp.	Santa Clara, CA	Dainippon Ink & Chemicals Inc. Burroughs Corp.	43 57	Acquired	Toner/developer for copiers, duplicators/printers	35	1981
Mitsubishi Consumer Electronics America, Inc.	Santa Ana, CA	Mitsubishi Electric Corp.	100	New	Projection color television sets	80	1982
Mitutoyo Corp.	City of Industry, CA	Mitutoyo Mfg. Co., Ltd.	100	New	Calipers, micrometers	30	1979
Morpac, Inc.	Cordova, AK	Nippon Suisan Kaisha, Ltd. Mitsui & Co., Ltd.	49 49	Acquired	Canned fish	100	1973
Munsingwear, Inc.	Guin, AL	Toyobo Co., Ltd. Descente Ltd. C. Itoh & Co., Ltd.	10 10 10	Acquired	Women's intimate apparel	2,400	1981
Munsingwear, Inc.	Hamilton, AL	Toyobo Co., Ltd. Descente Ltd. C. Itoh & Co., Ltd.	10 10 10	Acquired	Synthetic fabrics		1981
Munsingwear, Inc.	New Albany, MS	Toyobo Co., Ltd. Descente Ltd. C. Itoh & Co., Ltd.	10 10 10	Acquired	Women's intimate apparel		1981
Munsingwear, Inc.	Fairmont, NC	Toyobo Co., Ltd. Descente Ltd. C. Itoh & Co., Ltd.	10 10 10	Acquired	Men's/boys' shirts, underwear, nightwear		1981
Munsingwear, Inc.	Red Springs, NC	Toyobo Co., Ltd. Descente Ltd. C. Itoh & Co., Ltd.	10 10 10	Acquired	Cotton fabrics		1981
Munsingwear, Inc.	Hominy, OK	Toyobo Co., Ltd. Descente Ltd. C. Itoh & Co., Ltd.	10 10 10	Acquired	Men's/boys' shirts, underwear, nightwear		1981
Munsingwear, Inc.	Athens, TX	Toyobo Co., Ltd. Descente Ltd. C. Itoh & Co., Ltd.	10 10 10	Acquired	Women's intimate apparel		1981
Munsingwear, Inc.	Paris, TX	Toyobo Co., Ltd. Descente Ltd. C. Itoh & Co., Ltd.	10 10 10	Acquired	Women's intimate apparel		1981
Munsingwear, Inc.	Ashland, WI	Toyobo Co., Ltd. Descente Ltd. C. Itoh & Co., Ltd.	10 10 10	Acquired	Men's/boys' shirts, underwear, nightwear		1981
NEC Electronics U.S.A. Inc.	Roseville, CA	NEC Corp.	100	New	Integrated circuits	200*	1984*
NEC Information Systems Inc.	Boxborough, MA	NEC Corp.	100	New	Computers/peripheral equipment	500	1983
*NKK Switches of America, Inc.	Scottsdale, AZ	Nihon Kaiheiki Industries Co., Ltd.	Majority share	New	Electric/electronic switches	10	1983
Neptune Packing Corp.	Mayaquez, PR	Mitsui & Co., Ltd.	100	Acquired	Canned fish	500	1973

Company	Plant Location	Parent	Share	New or Acquired	Product Line	Employees	Year Plant Opened or Acquired
Nichimo Northwest, Inc.	Everson, WA	Nichimo Co., Ltd.	70	New	Gill nets	8	1982
		Northwest Net & Twine, Inc.	30				
*Nidek Inc.	Palo Alto, CA	Nidek Co., Ltd.	100	New	Auto-refractometers, photocoagulators/other ophthalmologic instruments	4	1983
*Niitakaya USA Inc.	Los Angeles, CA	Niitakaya Co., Ltd.	100	Acquired	Pickles	10	1983
Nikko Wolverine Inc.	Dearborn Heights, MI	Nippon Mining Co., Ltd.	51	Acquired	Titanium/zirconium tubes/pipe	60	1981
		C. Itoh & Co., Ltd.	29				
		UOP Inc.	20				
Nintendo of America, Inc.	Seattle, WA	Nintendo Co., Ltd.	100	New	Video game machines	40	1982
*Nippondenso Sales, Inc.	Battle Creek, MI	Nippondenso Co., Ltd.	100	New	Automotive windshield washers/heaters	40	1983
North American Brine Resources	Kingfisher County, OK (three sites)	United Resources Industry Co., Ltd.	50	New	Iodine	5	1982
		Mitsui & Co., Ltd.	10				
		Beard Oil Co.	40				
*North American Lighting, Inc.	Flora, Il	Koito Manufacturing Co., Ltd.	49	New	Automotive lighting equipment	26	1983
		Westfalische Metal Industrie AG	51				
North Pacific Processors Inc.	Cordova, AK	Marubeni Corp.	100	New	Canned/frozen fish	450	1972
North Pacific Processors Inc.	Kenai, AK	Marubeni Corp.	100	New	Canned/frozen fish		1972
North Pacific Processors Inc.	Kodiak, AK	Marubeni Corp.	100	New	Canned/frozen fish		1972
Nutrius Inc.	Van Buren, AR	Mitsui & Co., Ltd.	100	Acquired	Feed additives	136	1981
Nutrius Inc.	Fresno, CA	Mitsui & Co., Ltd.	100	Acquired	Feed additives		1981
*Nutrius Inc.	Manson, IA	Mitsui & Co., Ltd.	100	Acquired	Feed additives		1983
Nutrius Inc.	Louisville, KY	Mitsui & Co., Ltd.	100	Acquired	Feed additives		1981
*Oki America Inc.	Norcross, GA	Oki Electric Industry Co., Ltd.	100	New	Electronic private branch exchanges, cellular mobile telecommunications equipment	150	1984
Olympic Wood Products Inc.	Shelton, WA	Takeuchi Lumber Co., Ltd.	50	New	Lumber	15	1982
		Kanda Corp.	40				
		Aika Kogyo Co., Ltd.	10				
Orange Bakery Inc.	Irvine, CA	Rheon Automatic Machinery Co., Ltd.	100	New	Bakery products	n.a.	1979
Orient Shimazaki Chemical Corp.	Newark, NJ	Shimazaki Corp.	n.a.	New	Nigrosine (black dye)	n.a.	1981
		Orient Chemical Industries Co., Ltd.	n.a.				
Pace Products Inc.	Dallas, TX	Fuji Koki Mfg. Co., Ltd.	50	New	Expansion valves for automotive air conditioning systems	15	1982
		Virginia Chemicals Inc.	50				
Pacific Propeller, Inc.	Kent, WA	Minebea Co., Ltd.	100	Acquired	Aircraft propellers	60	1982
Pearl International Corp.	Nashville, TN	Pearl Musical Instrument Co.	100	New	Musical drums	45	1979
Peter Pan Seafoods Inc.	Dillingham, AK	Nichiro Gyogyo Kaisha, Ltd.	100	Acquired	Canned fish	90	1979
Peter Pan Seafoods Inc.	King Cove, AK	Nichiro Gyogyo Kaisha, Ltd.	100	Acquired	Canned/frozen fish	290	1979
Peter Pan Seafoods Inc.	Port Moller, AK	Nichiro Gyogyo Kaisha, Ltd.	100	Acquired	Frozen fish	120	1979

Company	Plant Location	Parent	Share	New or Acquired	Product Line	Employees	Year Plant Opened or Acquired
Pioneer Video, Inc.	Carson, CA	Pioneer Electronic Corp.	100	Acquired	Video discs	150	1982
•Pyr Coat Inc.	Houston, TX	Mitsui & Co., Ltd.	60	Acquired	Fireproof coatings, fireproof insulation/adhesives, asbestos encapsulation/removal products	5	1983
Rakuyo Ken U.S.A. Inc.	Honolulu, HI	Rakuyo Shokuhin Co., Ltd.	100	New	Shumai	8	1981
Ricoh Electronics, Inc.	Santa Ana, CA	Ricoh Co., Ltd.	100	New	Dry toner for copiers	50	1982
S & B International Corp.	Torrance, CA	S & B Shokuhin Co., Ltd.	100	New	Seasoning mixes	4	1975
•SDS Biotech Corp.	Princeton, NJ	Showa Denko K.K. Diamond Shamrock Corp.	50 50	Acquired	Animal health products	1,000	1983
•SDS Biotech Corp.	Greens Bayou, TX	Showa Denko K.K. Diamond Shamrock Corp.	50 50	Acquired	Agricultural chemicals		1983
SMK Manufacturing Inc.	Placentia, CA	Showa Musen Kogyo Co., Ltd.	100	Acquired	Connectors	100	1981
Sanoh Manufacturing Corp.	San Diego, CA	Sanoh Industrial Co., Ltd. Sanyo Electric Co., Ltd.	80 20	New	Refrigerator parts	27	1981
Shindo International, Inc.	New York, NY	Shindo Shashin Seikan K.K.	100	New	Color separation, offset printing	n.a.	1978
•Shinko Electric America Inc.	Manteca, CA	Shinko Electric Co., Ltd.	100	New	Lead frames for integrated circuits	34	1983
Sierracin Glass Transparencies Inc.	Sylmar, CA	Asahi Glass Co., Ltd. Sierracin Corp.	50 50	New	Glass transparencies for aircraft	50	1982
Sony Magnetic Products Inc. of America	Laredo, TX	Sony Corp.	100	New	Audio cassette tapes	48	1979
Southern Metal Service, Inc.	Gulfport, MS	Kanematsu-Gosho, Ltd.	100	New	Steel processing	35	1973
Stanley Electric U.S. Co., Inc.	London, OH	Stanley Electric Co., Ltd.	100	New	Automotive/motorcycle lighting equipment	50	1982
•Supergreen Inc.	Hazleton, PA	Kaiyo Bokujo Co., Ltd. Sekisui Plastics Co., Ltd. Itoman & Co., Ltd.	55 35 10	New	Packaged hydroponic radish sprouts	70	1983
TMS Mills, Inc.	Spartanburg, SC	Tsuzuki Spinning Co., Ltd.	100	New	Cotton-blend sheeting	100	1982
•TMS Mills, Inc.	Spartanburg, SC	Tsuzuki Spinning Co., Ltd.	100	New	Polyester-cotton blend yarn	70	1984
TYK Swank Refractories Co.	Irvona, PA	Tokyo Yogyo Co., Ltd.	100	Acquired	Steel industry refractory products	30	1982
•Takasago Corp. USA	Teterboro, NJ	Takasago Perfumery Co., Ltd.	100	Acquired	Food flavoring compounds	35*	1984*
•Teenform Group	Miami, FL	Wacoal Corp.	100	Acquired	Women's intimate apparel	60	1983
•Teenform Group	Luquio, PR	Wacoal Corp.	100	Acquired	Women's intimate apparel	250	1983
Templock/APM Inc.	Carpinteria, CA	Nippon Automatic Fine Machinery Co., Ltd. Marubun Corp. Templock Corp.	39 10 51	New	Heat-shrinkable plastic material application machinery	n.a.	1981
Thin Film Technology Corp.	North Mankato, MN	Susumu Co., Ltd.	100	New	Thin-film resistive electronic components	50	1982
Togiak Fisheries, Inc.	Togiak, AK	Marubeni Corp.	Majority share	Acquired	Canned/frozen fish	140	1972
Tokai of America Inc.	Rancho Cucamonga, CA	Tokai Seiki Co., Ltd.	100	New	Disposable cigarette lighters	40	1982
Tomoegawa (U.S.A.) Inc.	Wheeling, IL	Tomoegawa Paper Co., Ltd.	100	New	Toner/developer/other consummable supplies for photocopying industry	50	1980
Totaku America Corp.	Compton, CA	Totaku Industries Inc.	100	New	Plastic/rubber flexible hose	50	1974

Company	Plant Location	Parent	Share	New or Acquired	Product Line	Employees	Year Plant Opened or Acquired
Toyojamco, Ltd.	York, PA	Japan Automatic Machine Co., Ltd.	50	New	Components for automatic crimping machinery	15	1983
		Oriental Terminal Products Co., Ltd.	50				
*Tube Turns Inc.	Louisville, KY	Sumitomo Metal Industries, Ltd.	49	Acquired	Welded steel fittings, forgings, engineered products	300	1983
		Sumitomo Corp.	49				
		Sumitomo Bank, Ltd.	2				
UGM, Inc.	Santa Clara, CA	Tokyo Tan-Ichi Co., Ltd.	100	New	Metal stampings for integrated circuit lead frames	9	1976
U.S. Fuji Electric Inc.	Piscataway, NJ	Fuji Electric Co., Ltd.	100	New	Photo-sensitive drums for copiers	30	1983
US JVC Corp.	Elmwood Park, NJ	Victor Co. of Japan, Ltd.	100	New	Color television sets	45	1982
USR Optinix Inc.	Hackettstown, NJ	Mitsubishi Chemical Industries, Ltd.	100	Acquired	Fluorescent material for cathode ray tube displays	50	1981
Union Inc.	Costa Mesa, CA	Union Trading Co., Inc.	100	New	Instant noodles	120	1976
Universal Seafoods Ltd.	Dutch Harbor, AK	Nippon Suisan Kaisha, Ltd.	47	New	Frozen fish	100	1975
Universal Seafoods Ltd.	Redmond, WA	Nippon Suisan Kaisha, Ltd.	47	New	Frozen fish	200	1975
*Viam Manufacturing Inc.	Santa Fe Springs, CA	Japan Vilene Co., Ltd.	60	New	Automotive mats	50*	1984*
		Dainippon Ink & Chemicals Inc.	40				
Wards Cove Packing Co., Inc.	Alitak, AK	Marubeni Corp.	Minority share	Acquired	Canned/frozen fish	1,500	1973
Wards Cove Packing Co., Inc.	Ekuk, AK	Marubeni Corp.	Minority share	Acquired	Canned/frozen fish		1973
Wards Cove Packing Co., Inc.	Excursion Inlet, AK	Marubeni Corp.	Minority share	Acquired	Canned/frozen fish		1973
Wards Cove Packing Co., Inc.	Icy Cape, AK	Marubeni Corp.	Minority share	Acquired	Canned/frozen fish		1973
Wards Cove Packing Co., Inc.	Kenai, AK	Marubeni Corp.	Minority share	Acquired	Canned/frozen fish		1973
Wards Cove Packing Co., Inc.	Ketchikan, AK	Marubeni Corp.	Minority share	Acquired	Canned fish		1973
Wards Cove Packing Co., Inc.	Naknek, AK	Marubeni Corp.	Minority share	Acquired	Canned/frozen fish		1973
Wards Cove Packing Co., Inc.	Port Bailey, AK	Marubeni Corp.	Minority share	Acquired	Canned/frozen fish		1973
*Warner-Ishi Corp.	Shelbyville, IL	Ishikawajima-Harima Heavy Industries Co., Ltd.	50	New	Automotive turbochargers	100*	1984*
		Borg-Warner Corp.	50				
Western Alaska Fisheries, Inc.	Kodiak, AK	Taiyo Fishery Co., Ltd.	100	New	Canned/frozen fish	35	1963

Company	Plant Location	Parent	Share	New or Acquired	Product Line	Employees	Year Plant Opened or Acquired
Whitney-Fidalgo Seafoods, Inc.	Anchorage, AK	Kyokuyo Co., Ltd.	98	Acquired	Canned/frozen fish	1,000	1973
Whitney-Fidalgo Seafoods, Inc.	Dutch Harbor, AK	Kyokuyo Co., Ltd.	98	Acquired	Frozen fish		1973
Whitney-Fidalgo Seafoods, Inc.	Kodiak, AK	Kyokuyo Co., Ltd.	98	Acquired	Canned fish		1973
Whitney-Fidalgo Seafoods, Inc.	Naknek, AK	Kyokuyo Co., Ltd.	98	Acquired	Canned fish		1973
Whitney-Fidalgo Seafoods, Inc.	Petersburg, AK	Kyokuyo Co., Ltd.	98	Acquired	Canned fish		1973
Whitney-Fidalgo Seafoods, Inc.	Uyak, AK	Kyokuyo Co., Ltd.	98	Acquired	Canned fish		1973
Whitney-Fidalgo Seafoods, Inc.	Anacortes, WA	Kyokuyo Co., Ltd.	98	Acquired	Canned fish		1973

n.a. not available
* Projected
** The Howmet Aluminum name may be used until August 29, 1985.
• Previously unlisted plants that went into operation during 1983 or were under construction on December 31, 1983, as well as acquisitions that were finalized in 1983.

Appendix 2: U.S. Manufacturing Affiliates of Japanese Companies by State

Alabama
Munsingwear, Inc. (2)

Alaska
Bering Sea Fisheries, Inc.
Dutch Harbor Seafoods Co., Inc.
Harbor Seafood Co., Inc.
Kodiak King Crab, Inc. (2)
Morpac, Inc.
North Pacific Processors Inc. (3)
Peter Pan Seafoods Inc. (3)
Togiak Fisheries, Inc.
Universal Seafoods Ltd.
Wards Cove Packing Co., Inc. (8)
Western Alaska Fisheries, Inc.
Whitney-Fidalgo Seafoods, Inc. (6)

Arizona
Alumax Inc., Alumax Fabricated Products, Inc.
Chickasha Cotton Oil Co.
•NKK Switches of America, Inc.

Arkansas
•Alumax Inc., Howmet Aluminum
Alumax Inc., Kawneer Co., Inc.
Nutrius Inc.

California
Alloy Tool Steel Inc.
Alumax Inc., Alumax Fabricated Products, Inc. (2)
•Alumax Inc., Howmet Aluminum (3)
•American Foods Corp. (4)
Amsnack, Inc.
CTY Corp.
Concise Casting Corp.
•Cryodynamics Co.-Ebara Group
Daiwa Golf Co.
Forman Industries Inc.
Hitachi Consumer Products of America Inc.
•Hi-Tek Corp.
•House Foods and Yamauchi Inc.
IDEC Systems & Controls Corp.
IKS American Corp.
International Leadframe Corp.
Kaga USA Inc.
•Kato Spring Inc.
•Kikusui International Corp.
Lafayette Metal Service Corp.
Master Fence Fittings Inc.
•Matheson Gas Products Inc. (2)
Matsushita Electronic Components Co.
Megatool Inc.
Memorex DIC Corp.
Mitsubishi Consumer Electronics America, Inc.
Mitutoyo Corp.
NBC Electronics U.S.A. Inc.
•Nidek Inc.
•Niitakaya USA Inc.
Nutrius Inc.
Orange Bakery Inc.
Pioneer Video, Inc.
Ricoh Electronics, Inc.
S & B International Corp.
SMK Manufacturing Inc.
Sanoh Manufacturing Corp.
•Shinko Electric America Inc.
Sierracin Glass Transparencies Inc.
Templock/AFM Inc.
Tokai of America Inc.
Totaku America Corp.
UGM, Inc.
Union Inc.
•Viam Manufacturing Inc.

Colorado
•Alumax Inc., Kawneer Co., Inc.
•Data Ray Corp.

Connecticut
No additional listings

Delaware
No additional listings

Florida
•Alumax Inc., Howmet Aluminum
•Fujitsu America, Inc.
Key Pharmaceuticals, Inc.
MCI Inc.
•Teenform Group

Georgia
•Alumax Inc., Howmet Aluminum (5)
High Voltage Breakers, Inc.
Kato Spring of Georgia Inc.
•Matheson Gas Products Inc.
•Oki America Inc.

Hawaii
Bunmeido of Hawaii Ltd.
Daiichiya Love's Bakery Inc.
Honma Golf, Inc.
Rakuyo Ken U.S.A. Inc.

Idaho
No additional listings

Illinois
•Alumax Inc., Howmet Aluminum
•Matheson Gas Products Inc.
•North American Lighting, Inc.
Tomoegawa (U.S.A.) Inc.
•Warner-Ishi Corp.

Indiana
•Alumax Inc., Howmet Aluminum
•Digital Audio Disc Corp.

Iowa
Harnischfeger Corp.
•Nutrius Inc.

Kansas
•Alumax Inc., Howmet Aluminum

Kentucky
ATR Wire and Cable Co.
•Alumax Inc., Howmet Aluminum
Nutrius Inc.
•Tube Turns Inc.

Louisiana
•Matheson Gas Products Inc.

Maine
No additional listings

Maryland
No additional listings

Massachusetts
•Matheson Gas Products Inc.
NBC Information Systems, Inc.

Michigan
•Alumax Inc., Howmet Aluminum (2)
Cast Forge Co.
•FBC Inc.
Nikko Wolverine Inc.
•Nippondenso Sales, Inc.

Minnesota
Cathra International Corp.
Thin Film Technology Corp.

Mississippi
Munsingwear, Inc.
Southern Metal Service, Inc.

Missouri
•Alumax Inc., Howmet Aluminum (2)
Bio Kyowa Inc.
Fotomat Corp.
Kel-Am, Inc.

Montana
No additional listings

Nebraska
Diamond Plastics Corp.

Nevada
No additional listings

New Hampshire
Coca-Cola Bottling Co.

New Jersey
MCI Optinix Inc.
•Matheson Gas Products Inc.
Orient Shimazaki Chemical Corp.
•SDS Biotech Corp.
•Takasago Corp. USA
U.S. Fuji Electric Inc.
US JVC Corp.
USR Optinix Inc.

New Mexico
No additional listings

New York
Economic Salon, Ltd.
IMC Magnetics Corp.
Shindo International, Inc.

North Carolina
Alumax Inc., Alumax Extrusions, Inc.
•Alumax Inc., Howmet Aluminum
Fuji Cone Inc.
•Fuji Foods Inc.
•Honda Power Equipment Manufacturing Inc.
•Kibun Corp. of North Carolina
Munsingwear, Inc. (2)

North Dakota
No additional listings

Ohio
ALCOA-NBC Communications Corp.
•Alumax Inc., Howmet Aluminum
Alumax Inc., Kawneer Co., Inc.
Bellemar Parts Industries Inc.
Fotomat Corp.
Fujitec Industries, Inc.
LeBlond Makino Machine Tool Co.
•Matheson Gas Products Inc.
Stanley Electric U.S. Co., Inc.

Oklahoma
Chickasha Cotton Oil Co.
Munsingwear, Inc.
North American Brine Resources

Oregon
Emway Inc.

Pennsylvania
•Alumax Inc., Howmet Aluminum (6)
•Supergreen Inc.
TYK Swank Refractories Co.
Toyojamco Ltd.

Rhode Island
Machine Specialties Co.

South Carolina
Harnischfeger Corp.
•TNS Mills, Inc. (2)

South Dakota
No additional listings

Tennessee
Bridgestone Tire Manufacturing (U.S.A.), Inc.
•Calsonic Manufacturing Corp.
Pearl International Corp.

Texas
Alloy Tool Steel of Texas Inc.
•Alumax Inc., Howmet Aluminum (10)
Alumax Inc., Kawneer Co., Inc.
Chickasha Cotton Oil Co. (2)
Diamond Plastics Corp.
First Metals, Inc.
•Fujitsu America, Inc.
Halco Fence & Wire Co.
•Kaneka Texas Corp.
•Matheson Gas Products Inc.
Munsingwear, Inc. (2)
Pace Products Inc.
•Pyr Coat Inc.
•SDS Biotech Corp.
Sony Magnetic Products Inc. of America

Utah
No additional listings

Vermont
No additional listings

Virginia
Amano-International Enzyme Co., Inc.

Washington
Alpha Biochemical Corp.
•Alumax Inc., Howmet Aluminum
•Kibun Corp. of Washington
International Titanium Inc.
Nichimo Northwest, Inc.
Nintendo of America, Inc.
Olympic Wood Products Inc.
Pacific Propeller, Inc.
Universal Seafoods Ltd.
Whitney-Fidalgo Seafoods, Inc.

West Virginia
No additional listings

Wisconsin
Harnischfeger Corp. (2)
Munsingwear, Inc.

Wyoming
No additional listings

Puerto Rico
Caribe Isoprene Corp.
Caribe Tuna Inc.
Matsushita Electric of Puerto Rico, Inc.
Neptune Packing Corp.
•Teenform Group

•Previously unlisted plants that went into operation during 1983 or were under construction on December 31, 1983, as well as acquisitions that were finalized in 1983.

Note: A number in parentheses indicates that the relevant company has plants in more than one location in the state.

Appendix 3: U.S. Manufacturing Affiliates of Japanese Companies by Product Line

Food Products

2013	Shumai	Rakuyo Ken U.S.A. Inc.
2034	Instant noodles	Union Inc.
2035	Cooking wines	American Foods Corp. (2)
	Sauces	American Foods Corp.
	Pickles	•Niitakaya USA Inc.
2037	Frozen potato products	Emway Inc.
2051	Bakery products	Bunmeido of Hawaii Ltd.
	Bakery products	Daiichiya Love's Bakery Inc.
	Bakery products	Orange Bakery Inc.
2052	Rice crackers	Amsnack, Inc.
2074	Cottonseed oil	Chickasha Cotton Oil Co. (4)
2077	Binder for fish feed	Alpha Biochemical Corp.
2086	Soft drinks	Coca-Cola Bottling Co.
2091	Canned fish	Caribe Tuna Inc.
	Canned fish	Harbor Seafood Co., Inc.
	Canned fish	Kodiak King Crab, Inc.
	Canned fish	Morpac, Inc.
	Canned fish	Neptune Packing Corp.
	Canned fish	North Pacific Processors Inc. (3)
	Canned fish	Peter Pan Seafoods Inc. (2)
	Canned fish	Togiak Fisheries, Inc.
	Canned fish	Wards Cove Packing Co., Inc. (8)
	Canned fish	Western Alaska Fisheries, Inc.
	Canned fish	Whitney-Fidalgo Seafoods, Inc: (6)
2092	Frozen fish	Bering Sea Fisheries, Inc.
	Frozen fish	Dutch Harbor Seafoods Co., Inc.
	Frozen fish	Harbor Seafood Co., Inc.
	Frozen fish	Kodiak King Crab, Inc. (2)
	Frozen fish	North Pacific Processors Inc. (3)
	Frozen fish	Peter Pan Seafoods Inc. (2)
	Frozen fish	Togiak Fisheries, Inc.
	Frozen fish	Universal Seafoods Ltd. (2)
	Frozen fish	Wards Cove Packing Co., Inc. (7)
	Frozen fish	Western Alaska Fisheries, Inc.
	Frozen fish	Whitney-Fidalgo Seafoods, Inc. (2)
	Frozen seafood	•Kibun Corp. of North Carolina
	Frozen seafood	•Kibun Corp. of Washington
2099	Beef/chicken extracts for soup stocks	•Fuji Foods Inc.
	Tofu/related soybean products	•House Foods and Yamauchi Inc.
	Packaged hydroponic radish sprouts	•Supergreen Inc.
	Seasoning mixes	S & B International Corp.
	Vinegar	•American Foods Corp. (4)

Tobacco Manufactures

No additional listings

Textile Mill Products

2211	Cotton fabrics	Munsingwear, Inc.
	Cotton-blend sheeting	TNS Mills, Inc.
2221	Synthetic fabrics	Munsingwear, Inc.
2271	Automotive mats	•Viam Manufacturing Inc.
2281	Polyester-cotton blend yarn	•TNS Mills, Inc.

Apparel and Made-up Textile Products

232	Men's/boys' shirts, underwear, nightwear	Munsingwear, Inc. (3)
234	Women's intimate apparel	Munsingwear, Inc. (4)
	Women's intimate apparel	•Teenform Group (2)
2399	Gill nets	Nichimo Northwest, Inc.

Lumber and Wood Products

2421	Lumber	Olympic Wood Products Inc.

Furniture and Fixtures

2517	Speaker boxes	Matsushita Electric of Puerto Rico, Inc.
2599	Kiosks	Fotomat Corp.

Paper and Paper Products

No additional listings

Printing and Publishing

2721	Periodicals publishing	Economic Salon, Ltd.
2752	Color separation, offset printing	Shindo International, Inc.

Chemicals and Related Products

2813	Specialty gases	•Matheson Gas Products Inc. (9)
2819	Fluorescent material for cathode ray tube displays	USR Optinix Inc.
	Iodine	North American Brine Resources
2821	Methyl methacrylate-butadiene-styrene resins	•Kaneka Texas Corp.
2822	Isoprene monomer, dicyclopentadiene, piperylene	Caribe Isoprene Corp.
2834	Ethical pharmaceuticals	Key Pharmaceuticals, Inc.
	Animal health products	•SDS Biotech Corp.
2865	Nigrosine (black ink)	Orient Shimazaki Chemical Corp.
2869	Enzymes	Amano-International Enzyme Co., Inc.
	Food flavoring compounds	•Takasago Corp. USA
	Feed additives	•Nutrius Inc. (4)
	Lysine (feedstuff amino acid additive)	Bio Kyowa Inc.
2879	Agricultural chemicals	•SDS Biotech Corp.
2899	Fireproof coatings, fireproof spray insulation/adhesives, asbestos encapsulation/removal products	•Pyr Coat Inc.

Petroleum Refining

No additional listings

Rubber and Miscellaneous Plastic Products

3011	Radial truck tires	Bridgestone Tire Manufacturing (U.S.A.), Inc.
3041	Plastic/rubber flexible hose	Totaku America Corp.
3079	Polyvinyl chloride pipes	Diamond Plastics Corp. (2)

Leather and Leather Products

No additional listings

Stone, Clay, Glass and Concrete Products

3231	Glass transparencies for aircraft	Sierracin Glass Transparencies Inc.
3297	Steel industry refractory products	TYK Swank Refractories Co.

Primary Metals

3339	Titanium sponge	International Titanium Inc.
3341	Secondary aluminum slab/billet	•Alumax Inc., Howmet Aluminum
	Recycled aluminum scrap	•Alumax Inc., Howmet Aluminum (3)
3353	Aluminum sheet/coil	•Alumax Inc., Howmet Aluminum (2)
3354	Aluminum extruded shapes	Alumax Inc., Alumax Extrusions, Inc.
	Aluminum extruded shapes	•Alumax Inc., Howmet Aluminum
3356	Titanium/zirconium tubes/pipe	Nikko Wolverine Inc.
3361	Aluminum castings	Concise Casting Corp.

Fabricated Metal Products

344	Steel processing	Alloy Tool Steel Inc.
	Steel processing	Alloy Tool Steel of Texas Inc.
	Steel processing	First Metals, Inc.
	Steel processing	Lafayette Metal Service Corp.
	Steel processing	Southern Metal Service, Inc.
	Aluminum/copper/steel processing	•Alumax Inc., Howmet Aluminum (6)
3442	Aluminum bath enclosures	•Alumax Inc., Howmet Aluminum (3)
	Aluminum garage doors	•Alumax Inc., Howmet Aluminum
	Aluminum products for commercial remodeling	•Alumax Inc., Howmet Aluminum
3444	Aluminum products for housing aftermarket	Alumax Inc., Alumax Fabricated Products, Inc. (3)
	Aluminum products for housing aftermarket	•Alumax Inc., Howmet Aluminum (7)
	Aluminum products for mobile homes/recreational vehicles	•Alumax Inc., Howmet Aluminum (7)
	Aluminum rain-carrying components/other building products	•Alumax Inc., Howmet Aluminum (5)
	Aluminum spectator seating, scaffolding, ceiling grid systems, custom fabricated work	•Alumax Inc., Howmet Aluminum
	Sheet-metal ducts	Forman Industries, Inc.
3446	Architectural aluminum products	•Alumax Inc., Kawneer Co., Inc. (3)
3462	Steel forgings	•Tube Turns Inc.
3463	Aluminum wheels/other die-cast aluminum automotive products	Cast Forge Co.
3469	Lead frames for integrated circuits	International Leadframe Corp.
	Lead frames for integrated circuits	•Shinko Electric America Inc.
	Lead frames/other metal parts for integrated circuits	Kaga USA Inc.
	Metal stampings for integrated circuit lead frames	UGM, Inc.
3494	Welded steel fittings, engineered products	•Tube Turns Inc.
	Expansion valves for automotive air conditioning systems	Pace Products Inc.
3495	Precision springs	•Kato Spring Inc.
	Precision springs	Kato Spring of Georgia Inc.
3496	Chain link	Halco Fence & Wire Co.
	Fittings for metal fencing	Master Fence Fittings Inc.
	Steel cord/bead wire for tires	ATR Wire and Cable Co.

Nonelectric Machinery

3524	Lawnmowers	•Honda Power Equipment Manufacturing Inc.
3531	Draglines	Harnischfeger Corp.
3532	Mining shovels, hydraulic excavators	Harnischfeger Corp.
3534	Elevators, escalators	Fujitec Industries, Inc.
3536	Hoists	Harnischfeger Corp.
	Hydraulic truck/rough-terrain cranes	Harnischfeger Corp.
	Lattice-boom truck/crawler cranes	Harnischfeger Corp. Harnischfeger Corp. (2)
	Monorail systems	Harnischfeger Corp.
	Overhead traveling cranes	Harnischfeger Corp. (2)
3537	Material-handling systems	Harnischfeger Corp.
3541	Numerically controlled lathes, machining centers	LeBlond Makino Machine Tool Co.
	Numerical controls	LeBlond Makino Machine Tool Co.
3546	Carbide drills	Megatool Inc.
3559	Components for automatic crimping machinery	Toyojamco Ltd.
3561	Pumps for low-temperature liquids	•Cryodynamics Co.-Ebara Group
3562	Ball bearings	IKS American Corp.
3564	Fans/blowers for communications/computer equipment	IMC Magnetics Corp.
3568	Pulleys	Machine Specialties Co.
3569	Specialty gas handling equipment	•Matheson Gas Products Inc. (9)
	Electronic fastening systems	•FEC Inc.
	Heat-shrinkable plastic material application machinery	Templock/APM Inc.
3573	Computers/peripheral equipment	NEC Information Systems, Inc.
	Computer keyboards	•Hi-Tek Corp.
	CRT display modules	•Data Ray Corp.

Electric Machinery and Electronics

3613	Circuit breakers for power plants/transmission lines	High Voltage Breakers, Inc.
3621	Electric motors	IMC Magnetics Corp.
	Motors for phonographs/audio equipment	Matsushita Electric of Puerto Rico, Inc.
3632	Refrigerator parts	Sanoh Manufacturing Corp.
3643	Electric/electronic switches	•NKK Switches of America, Inc.
3647	Automotive lighting equipment	•North American Lighting, Inc.
	Automotive/motorcycle lighting equipment	Stanley Electric U.S. Co., Inc.
3651	Color television sets	US JVC Corp.
	Projection color television sets	Hitachi Consumer Products of America Inc.
	Projection color television sets	Mitsubishi Consumer Electronics America, Inc.
	Recording studio equipment	MCI Inc.
	Stereo speakers, record changers	Matsushita Electric of Puerto Rico, Inc.
	Paper cones for stereo speakers	Fuji Cone Inc.
3652	Digital audio discs	•Digital Audio Disc Corp.
	Video discs	Pioneer Video, Inc.
3661	Electronic private branch exchanges	•Oki America Inc.
3662	Fiber-optic communications equipment, multiplexers, microwave radios	•Fujitsu America, Inc.
	Cellular mobile telecommunications equipment	•Oki America Inc.
	Satellite television receiving systems	ALCOA-NEC Communications Corp.
	Video game machines	Nintendo of America, Inc.
3674	Integrated circuits	Matsushita Electronic Components Co.
	Integrated circuits	NEC Electronics U.S.A. Inc.
3675	Axial capacitors	CTY Corp.
3676	Thin-film resistive electronic components	Thin Film Technology Corp.
3678	Connectors	Kel-Am, Inc.
	Connectors	SMK Manufacturing Inc.
3679	Audio cassette tapes	Sony Magnetic Products Inc. of America
	Cable assemblies, power supply units/related components for computers/peripheral equipment	•Fujitsu America, Inc.
	Relays, sockets, switches/other electrical industrial components	IDEC Systems & Controls Corp.
3693	X-ray intensifying screens for medical use	MCI Optinix Inc.

Transportation Equipment

3714	Automotive air conditioners	•Calsonic Manufacturing Corp.
	Automotive seat assemblies, exhaust silencer systems	Bellemar Parts Industries Inc.
	Automotive turbochargers	•Warner-Ishi Corp.
	Automotive windshield washers/heaters	•Nippondenso Sales, Inc.
3728	Aircraft propellers	Pacific Propeller, Inc.

Precision, Medical and Photographic Equipment

3825	Oscilloscopes	•Kikusui International Corp.
3829	Calipers, micrometers	Mitutoyo Corp.
3841	Medical diagnostic equipment	Cathra International Corp.
	Auto-refractometers, photocoagulators/other ophthalmologic instruments	•Nidek Inc.
3861	Photographic chemicals	Fotomat Corp.
	Photo-sensitive drums for copiers	U.S. Fuji Electric Inc.
	Toner/developer for copiers, duplicators/printers	Memorex DIC Corp.
	Dry toner for copiers	Ricoh Electronics, Inc.
	Toner/developer/other consummable supplies for photocopying industry	Tomoegawa (U.S.A.) Inc.

Miscellaneous Manufactures

3931	Musical drums	Pearl International Corp.
3949	Golf clubs	Daiwa Golf Co.
	Golf clubs	Homma Golf, Inc.
3999	Disposable cigarette lighters	Tokai of America Inc.

•Previously unlisted plants that went into operation during 1983 or were under construction on December 31, 1983, as well as acquisitions that were finalized in 1983.

Note: Product lines are grouped in terms of the Standard Industrial Classification. A number in parentheses indicates that the relevant company produces its product line in more than one location.

Appendix 4: Changes in Previously Listed U.S. Manufacturing Affiliates of Japanese Companies

1. Companies Closed or Sold

Company	Plant Location	Parent	Product Line
Ceradyne Inc.	Santa Ana, CA	Kyocera Corp.	Heat-resistant ceramics
Denka Chemical Corp.	Houston, TX	Denki Kagaku Kogyo K.K.	Chloroprene, maleic anhydride
Feltloc, Inc.	East Greenwich, RI	Dynic Corp.	Nonwoven cotton fabrics
Infinity Systems, Inc.	Canoga Park, CA	Kyocera Corp.	Stereo speakers
KLH Research & Development Corp.	Canoga Park, CA	Kyocera Corp.	Stereo speakers
Kodiak Lumber Mills, Inc.	Anchorage, AK	Mitsui & Co., Ltd.	Logs, wood chips
Marcrest Pacific Co., Inc.	Carson, CA	Marubeni Corp. Crest Steel Corp.	Welded steel beams
Mount Pleasant Chemical Co.	Mt. Pleasant, TN	Sumitomo Chemical Co., Ltd. Sumitomo Corp. Stauffer Chemical Co.	Insecticides
National Plywood, Inc.	Long Beach, CA	Mitsui & Co., Ltd.	Plywood
Oki Electronics of America, Inc.	Oakland Park, FL	Oki Electric Industry Co., Ltd.	Electronic private branch exchanges (output transferred to Norcross, GA)
Optical Information Systems Inc.	Elmsford, NY	Mitsubishi Chemical Industries, Ltd.	Semiconductor laser devices/ subsystems
Rosewood Knitting Mills, Inc.	Martinez, GA	Toyobo Co., Ltd.	Synthetic-fiber grey goods knitting
SMK Donnette Inc.	Chatsworth, CA	Showa Musen Kogyo Co., Ltd.	Connectors
Sekisui Products, Inc.	Linden, NJ	Sekisui Chemical Co., Ltd.	Polyethylene foam pipe insulation
Topri Inc.	Peachtree City, GA	Tokyo Print Industry Co., Ltd.	Printed circuit boards
VHD Disc Manufacturing Co.	Irvine, CA	Victor Co. of Japan, Ltd. Matsushita Electric Industrial Co., Ltd. General Electric Co. Thorn EMI Ltd.	Video discs
West Virginia Flat Glass Inc.	Clarksburg, WV	Asahi Glass Co., Ltd.	Flat glass ,

2. Merged Companies

Old Company	New Company
Emcon Inc. Viclan Inc.	Kyocera International, Inc.
Erie Technological Products Inc. JFD Electronic Components Inc. Murata Corp. of America	Murata Erie North America, Inc.

3. Permanently Closed or Sold Plants

Company	Plant Location	Parent	Product Line
Alumax Inc., Alumax Fabricated Products, Inc.	Twin Falls, ID	Mitsui & Co., Ltd. Nippon Steel Corp. AMAX Inc.	Aluminum irrigation tubing
Alumax Inc., Apex International Alloys, Inc.	Checotah, OK	Mitsui & Co., Ltd. Nippon Steel Corp. AMAX Inc.	Secondary aluminum/zinc alloys
Alumax Inc., Hillyard Aluminum Recovery Corp.	Fontana, CA	Mitsui & Co., Ltd. Nippon Steel Corp. AMAX Inc.	Dross recovery

Alumax Inc., Kawneer Co., Inc., South Bend Screw Products	South Bend, IN	Mitsui & Co., Ltd. Nippon Steel Corp. AMAX Inc.	Aluminum fasteners
Erie Technological Products Inc.	Erie, PA	Murata Mfg. Co., Ltd.	Ceramic capacitors
Fujitsu America, Inc.	Melbourne, FL	Fujitsu, Ltd.	Word processing terminals
Harnischfeger Corp.	Escanaba, MI	Kobe Steel, Ltd.	Lattice-boom truck/crawler cranes
Munsingwear, Inc.	Ironwood, MI	Toyobo Co., Ltd. Descente Ltd. C. Itoh & Co., Ltd.	Men's/boys' shirts, underwear, nightwear
Munsingwear, Inc.	Little Falls, MN	Toyobo Co., Ltd. Descente Ltd. C. Itoh & Co., Ltd.	Men's/boys' shirts, underwear, nightwear
Munsingwear, Inc.	Montgomery, MN	Toyobo Co., Ltd. Descente Ltd. C. Itoh & Co., Ltd.	Men's/boys' shirts, underwear, nightwear
Murata Corp. of America	Douglasville, GA	Murata Mfg. Co., Ltd.	Ceramic capacitors
NGK Spark Plug Mfg. (U.S.A.), Inc.	Van Nuys, CA	NGK Spark Plug Co., Ltd.	Spark plugs
Whitney-Fidalgo Seafoods, Inc.	Port Graham, AK	Kyokuyo Co., Ltd.	Canned fish
Whitney-Fidalgo Seafoods, Inc.	Seattle, WA	Kyokuyo Co., Ltd.	Frozen fish

4. Plant Location Changes

Company	Previous Plant Location	New Plant Location	Product Line
ARI Industries Inc.	Franklin Park, IL	Addison, IL	Temperature sensors/electric heating elements
Alumax Inc., Kawneer Co., Inc.	Rosemont, IL	Itasca, IL	Architectural aluminum products
DMC Magnetics Corp.	Maywood, CA	Cerritos, CA	Electric motors

5. Minority Shareholdings Sold

Company	Plant Location	Japanese Investor	Product Line
Olga Co.	Van Nuys, CA	Wacoal Corp.	Women's intimate apparel
Olga Co.	Fillmore, CA	Wacoal Corp.	Women's intimate apparel
Olga Co.	Oxnard, CA	Wacoal Corp.	Women's intimate apparel
Olga Co.	Santa Paula. CA	Wacoal Corp.	Women's intimate apparel

6. Ownership Changes

Company	Plant Location	Parent	Previous Share	New Share
Alumax Inc., Eastalco Aluminum Co.	Frederick, MD	Alumax Inc.	50%	100%
Alumax Inc., Intalco Aluminum Co.	Ferndale, WA	Alumax Inc.	50	100
Coca-Cola Bottling Co.	Middletown, CT	Kirin Brewery Co., Ltd.	50	100
Coca-Cola Bottling Co.	Lowell, MA	Kirin Brewery Co., Ltd.	50	100
Coca-Cola Bottling Co.	Laconia, NH	Kirin Brewery Co., Ltd.	50	100
DMC Magnetics Corp.	Tempe, AZ	Minebea Co., Ltd.	57	100
DMC Magnetics Corp.	Cerritos, CA	Minebea Co., Ltd.	57	100
DMC Magnetics Corp.	Rochester, NH	Minebea Co., Ltd.	57	100
DMC Magnetics Corp.	Westbury, NY	Minebea Co., Ltd.	57	100
DMC Magnetics Corp.	Mexia, TX	Minebea Co., Ltd.	57	100
Numano Sake Co.	Berkeley, CA	Takara Shuzo Co., Ltd.	20	90
Somitex Prints of California, Inc.	City of Industry, CA	Soko Seiren Co., Ltd.	30	100

7. Company Name Changes

Previous Company Name	New Company Name	Plant Location	Product Line
Electronic Arrays Inc.	NEC Electronics U.S.A., Inc.	Mountain View, CA	Integrated circuits
Numano Sake Co.	Takara Sake USA Inc.	Berkeley, CA	Sake/mirin
Yamazaki Machinery Corp.	Mazak Corp.	Florence, KY	Numerically controlled lathes

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JAPAN · ECONOMIC · INSTITUTE

JEI REPORT

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JSP Chairman Visits Washington

Masashi Ishibashi, chairman of the Japan Socialist Party, arrived in Washington April 7 at the outset of an eleven-day visit to the United States, the first by a leader of the party since 1979. Mr. Ishibashi met Vice President George Bush, Secretary of State George Shultz, Defense Secretary Caspar Weinberger and members of Congress during his stay. Although he was candid about the philosophical differences between his party and government leaders in the United States, he indicated that he hoped his visit would be the

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Maritime Commission (FMC) in the past, but began to run into trouble last year. The Japanese firms applied for a five-year extension of the pooling system, but American firms opposed the move. Mitsui O.S.K. Lines further complicated the situation by announcing its intention to withdraw from the pool in any case, calling it inefficient. In August, the FMC granted a two-month extension to the Japanese firms but imposed strict capacity expansion constraints on the six applicants. Faced with this decision, the Japanese firms, encouraged by the Ministry of Transportation, decided to split up into three groups of two firms each, injecting more competition and less cooperation into the structure of the Japanese industry.

It would be a mistake to think that the Japanese are the only ones who engage in cartel activities in ocean shipping, since the whole liner trade operates under "conferences," which are international cartels. They do not go so far as to include pooling and space chartering, but do coordinate rates and routes. The United States allows such cartels, though the restrictions on their operation have always been somewhat more stringent than in other countries. Now that system may be changing, and the Japanese feel that this will also alter the nature of competition. A new U.S. martime law will come into effect in June 1984 which further restricts conference activities by allowing for mandatory independent action, time-volume rate discounts, and service contracts. The Japanese industry feels that the new law will benefit American shipping companies, but they have little choice but to adapt to the more competitive environment.

To discuss these and other bilateral maritime issues, government transportation officials of the two governments held talks at the beginning of April. Among the issues aired at the meeting were Japanese complaints over mandatory American bottoms for all military equipment, goods procured by governments, and goods eligible for U.S. Export-Import Bank loans. This rule, for example, means that the tobacco bought by the Japan Tobacco and Salt Public Corp. (the government cigarette monopoly) must move on American vessels. The United States, on the other hand, complained of Japanese road transportation laws that restrict the movement of large marine containers over Japanese roads.

Maritime issues rarely attract much interest outside of the industry and the trade press. That low key approach still prevails, but in the highly charged atmoshpere of election-year politics, there is no guarantee that these issues will remain submerged.

Edward Lincoln

Japan's Annual Wage Negotiations Under Way

As the saying goes, "in spring, a young man's fancy turns to love," as far as Japanese business and labor unions are concerned, however, their spring fancy turns to labor contract negotiations. Since 1955, Japan's public and private labor unions have pooled their resources and pursued annual collective bargaining with industry from April to May. Typically, the process begins in November or December of the previous year with the national labor unions -- Sohyo (General Council of Labor Unions), Domei (Confederation of Labor), Shin Sanbetsu (Congress of Industrial Unions) and Churitsu-Roren (Federation of Independent Unions) -- working out a unified position on a target figure for wage increases. Industry also stakes out its position a month or two later, when Keidanren (Federation of Economic Organizations) and Nikkeiren (Japan Federation of Employers' Associations) issue their annual reports on labor and business conditions which justify their wage offers. In April, the steel industry negotiations take place and generally set the tenor for the following wage contracts. The employees of the Japan National Railways and the private railways often hold simultaneous strikes or work slowdowns, and the other unions often hold demonstrations to gain support.

The 1984 spring wage offensive, or shunto, has been characterized by labor union retrenchment despite the strengthening economic recovery in Japan and unanimously favorable economic forecasts. The national unions are calling for an average 6 percent increase this year, down from 1983's starting level of 7 percent (see accompanying table). It is clear that the 6 percent national union guideline is not universally adhered to by the member unions, whose wage hike demands range from 5.3 to 10.7 percent. While individual labor unions tend to be more militant, the national unions may have reduced this year's wage request in part to avoid the embarrassment they suffered last year when their high demands yielded record low settlements, and in part to reflect the delicate recovery.

Industry offers, also examined in the accompanying table, are even harsher than last year. The steel industry is proposing another record low annual wage increase of just $30.67 -- or 3.11 percent, claiming that demand for steel is still very soft both at home and abroad. Automotive manufacturers Toyota and Nissan are also offering less than they did last year, arguing that voluntary export restraints have prevented them from improving their 1983 performance enough to justify higher offers. Honda is the exception, and its profitable U.S. plants may have been a factor in setting their offer a bit higher than last year. The electric machinery sector, which includes such high-technology giants as Mitsubishi Electric, NEC and Matsushita Electric, also raised their offers from last year's record low 4.9 percent, reflecting their rapid recovery and positive outlook. Shipbuilders' offers are mixed as the industry remains slowed by excess capacity and stiff foreign competition.

The steel industry proposal met with a sour, but silent union response. Although the offer is even smaller than last year's, the unions accepted it after some hemming and hawing. There was a movement among the national unions to get other member unions, notably the railway and communications workers, to hold negotiations before the steel industry's in order to reduce the influence of the steel settlement -- which was expected to be very low. But the proposal came to nothing and this year's offensive appears to be a rather mild one -- some major protests are planned by the large public employees' unions, but private unions are keeping their heads down and emphasizing job security over wage increases. The outlook is thus for an average wage increase of something very close to last year's 5.25 percent figure -- probably around 5.3 percent.

The economic impact of this year's low settlements will, like last year, effectively restrain consumer spending. With unemployment high, though leveling off, and wage increases held down, Japanese consumers are not likely to be in a spending mood this year. While domestic demand has been improving, it is mostly due to a rise in business investment, while consumer demand has proved to be erratic. The lack of demand may increase pressure on the government to cut taxes or increase spending, both of which run counter to the Ministry of Finance's austerity drive.

Jon Choy

1984 Labor Union Demands
(annual wage increase in dollars and percentage increase)

Sector	1984 Demands		1983 Settlements	
Steel workers	$52.00	5.3%	$29.57	3.1%
Private Railway Workers	80.43	8.9	44.78	5.0
Metal Workers (Zenkoku Kinzoku)	80.43	9.2	43.46	4.8
(Zenkin Domei)	53.33	6.0	36.64	4.5
Chemical Workers	80.00	8.0	41.61	4.8
Transportation Workers	71.11	7.3	37.83	4.1
Textile Workers	55.69	6.1	36.90	4.2
Shipbuilders	52.00	5.4	29.57	3.3
Power Industry Workers	56.00	6.0	41.74	4.2
Seaman's Union	52.89	6.7	29.35	3.8
Electric Machinery Workers	55.61	6.7	39.34	4.9
Automobile Workers	52.89	6.0	38.93	4.8
Public Railway Workers	100.89	10.7	36.33	4.0
Public Communications Employees	97.78	10.7	38.01	4.3

1984 Industry Offers
(annual wage increases in dollars and percentage increase)

Sector	1984 Offers		1983 Settlements	
Steel (5 major companies)	$30.67	3.11%	$29.57	3.14%
Automobile Companies				
Toyota Motor Co., Ltd.	45.78	5.07	43.04	5.08
Nissan Motor Co., Ltd.	44.89	4.93	42.17	4.96
Honda Motor Co., Ltd.	44.44	5.43	41.74	5.39
Electric Machinery				
Hitachi Ltd.	42.71	5.00	39.79	4.90
Toshiba Corp.	43.88	5.00	40.84	4.90
Mitsubishi Electric Corp.	42.75	5.00	39.80	4.90
Sanyo Electric Co., Ltd.	40.41	5.00	37.70	4.90
Sharp Corp.	39.04	5.00	36.77	4.90
Nippon Electric Co., Ltd.	41.16	5.00	38.48	4.90
Oki Electric Industry Co. Ltd.,	41.56	5.00	38.77	4.90
Fujitsu Ltd.	41.27	5.00	38.63	4.90
Fuji Electric Co., Ltd.	43.22	5.00	39.84	4.90
Yasukawa Electric Mfg. Co., Ltd.	45.00	5.00	41.73	4.90
Meidensha Electric Mfg. Co., Ltd.	43.41	5.00	39.82	4.90
Shipbuilding				
Mitsubishi Heavy Industries, Ltd.	31.11	3.14	29.57	3.14
Ishikawajima-Harima Heavy Industries Co., Ltd.	31.11	3.18	29.57	3.20
Kawasaki Heavy Industries, Ltd.	31.11	3.20	29.57	3.22
Hitachi Shipbuilding & Engineering Co., Ltd.	31.11	3.37	29.57	3.40
Mitsui Engineering & Shipbuilding Co., Ltd.	31.11	3.28	29.57	3.29
Sumitomo Heavy Industries, Ltd.	31.11	3.28	29.57	3.27

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April 27, 1984

THE MINISTRY OF FINANCE: AN UNWELCOME EXPOSURE TO INTERNATIONAL ISSUES

Summary

As the focus on U.S.-Japan trade issues shifts to the liberalization of Japan's financial markets, the Ministry of Finance (MOF) -- once familiar to Americans only as the administrator of Japan's monetary and fiscal policies -- is moving into the foreground of bilateral affairs. While the public views the Finance Ministry, an agency with the best and the brightest of Japan's civil servants, as expert in guiding the country's financial affairs, other aspects of its role are less well-known. This report will analyze the MOF's function as overseer of both public and private business interests, and will examine the bureaucratic structure that underlies its administrative responsibilities.

Introduction

On March 19, key members of the cabinet and the Liberal Democratic Party (LDP) earmarked a number of bilateral trade issues to be resolved prior to the industrial nation summit to be held in London in June. These included important concessions in Japan's financial and capital markets, software legislation, and trade in a range of items of interest to the United States, including wine, bourbon, agricultural products, steam coal, paper products and plywood. At the moment, the negotiating agenda is dominated by the question of the liberalization of Japan's financial markets.

Because of the upcoming U.S. presidential elections, the Japanese government has urged that the package of concessions be authorized by the cabinet in order to serve as a "welcome mat" to Vice President Bush, who is scheduled to visit Japan on May 8th. It is now expected that the recommendations of the Ad Hoc Working Committee of the Japan-U.S. Yen/Dollar Commission will not be available before the end of May, however. If progress on capital market liberalization is visible at that time, Prime Minister Nakasone will feel free to discuss international issues at the summit meeting without the intrusion of foreign trade pressures. But one MOF official in charge of international monetary affairs told JEI that he was uncertain that the difficulties involved in meeting U.S. requests for relaxation of banking and securities regulations could be surmounted in so short a time. Many of Washington's demands, he contended, are potentially damaging to Japan's domestic financial market. Prospects for the resolution of this issue center on the MOF as a key participant in the U.S.-Japan trade game.

The MOF rationale for restricting competition in financial transactions is that it is acting in the public interest. In fact, though, MOF's public image, which it presents in negotiations on the budget, taxes and monetary policy, masks its interest in protecting the private-sector interests of the banking, securities and tobacco industries. To understand the complex MOF structure, a comparison with the U.S. government is useful. MOF's functions include responsibilities that in the United States are handled by the Treasury and Commerce Departments, the Office of Management and Budget, the Federal Reserve Board and the Securities and Exchange Commission (see Table 1). Although MOF's counterpart is thought to be Treasury, the budget arm of MOF which allocates government funds does not exist in Treasury. Every Japanese government agency, including those responsible for foreign affairs and police services, is subject to MOF's budget ax. This gives Finance officials power over programs in the domain of every government department.

Some of the functions of the Federal Reserve Board belong to the banking section, even though the Bank of Japan (BOJ) is nominally responsible. Decisions concerning important monetary policies, like the discount rate, are heavily influenced by this section, in spite of the central bank's official independence. Because of this, the BOJ is somewhat derisively referred to as a branch of the MOF's Banking Bureau. While these sections concentrate on domestic monetary policy, the International Finance Bureau handles international monetary management, including foreign exchange rates and balance-of-payments problems.

MOF's Wide Reach

MOF's actual territory is not limited to areas where it has direct responsibilities. Its influence also extends to a broad range of national and local government activities. The head of the Defense Agency (at the vice ministerial-level) for instance, is often a former Finance Ministry official. Key positions in the budget section of Defense are also held by MOF staff members, presumably because the public views the agency with distrust. The function of these officials is analogous to a bank sending an officer to participate in the management of a financially troubled company.

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The Economic Planning Agency, the National Land Agency, the Environmental Agency, the Administrative Management Agency, the Hokkaido Development Agency and the Okinawa Development Agency are all likely to have directors and key officials who were formerly in MOF. The director-general of the Cabinet Legislative Bureau, which oversees the actual drafting of legislation, is often a MOF representative. These agencies are not necessarily in need of money, as is Defense. "They need talent," the ministry explains to justify its influence.

MOF also has an extensive or controlling influence in a number of quasi-governmental agencies. The Japan Tobacco and Salt Public Corp. is a kind of sister corporation, and the presidency of the Bank of Japan has been shared by both Finance and BOJ executives. In fact, most government-owned financial institutions are under MOF's rule, including the Japan Development Bank, the Export-Import Bank of Japan, the Overseas Economic Cooperation Fund, the People's Finance Corp. and the Small Business Finance Corp.

Moreover, MOF has a presence within some local governments. The prefectures of Aomori, Iwate, Toyama, Ishikawa, Mie, Wakayama, Kumamoto, and the city of Yokohama have appointed mid-level MOF officials as deputy governors or key section bureaucrats. In the private sector, many former Finance officials are directors or senior managers of companies, especially in the banking industry. The Taiyo-Kobe Bank, Ltd., the Bank of Tokyo, the Japan Credit Bank, Ltd., the Hokkaido Takushoku Bank, Ltd., the Bank of Yokohama, Ltd., and the Jyoyo Bank, Ltd. have all had chairmen or presidents who were formerly MOF officials.

Even the legislative branch is often heavily influenced by the ministry's powers over expenditures. No lawmaker can propose a school, commercial or industrial project, or any other amenity for his district without Finance approval. Additionally, ex-MOF officials are found in both houses far more frequently than former civil servants from other agencies (Table 2). Because of the office's extraordinary jurisdiction, every prime minister deliberates very carefully before nominating the finance minister. Almost half of the appointees have been skilled technocrats who do not seem to have political ambitions. The other half have been chosen because of their capacity to balance factional powers. Of this last group, almost all have realized their ambitions to be prime minister -- including Hayato Ikeda, Eisaku Sato, Kakuei Tanaka, Takeo Fukuda and Masayoshi Ohira.

Capital Market Decontrol

The most characteristic MOF response to complaints about capital controls is that its responsibility is to protect the public interest, particularly with regard to the stability of the monetary system, the interests of domestic depositors, and the integrity of the yen. But there is some question whether these goals conflict with other agency activities, especially capital market liberalization. The ministry has been able to shelter certain sectoral interests which otherwise would have come in for heavy criticism. Quite a few present and former MOF officials acknowledged in an interview with JEI that the necessity of balancing competing interests in the financial sector has somewhat reduced its ability to make efficient economic decisions. The result has been foot-dragging on capital market liberalization and rising bilateral tensions. One younger member of MOF who declined to be quoted directly contended that MOF assumes that what is good for the domestic banking and securities companies is good for the public.

The focus of negotiations between the United States and Japan has now shifted to Euroyen market issues (see JEI Report No. 15B, April 3, 1984). The United States is pushing for deregulation of this market as a faster route to its goal of yen internationalization. American officials hope that this change can basically be accomplished without any substantial change in the laws that directly control Japan's domestic markets. But some people feel that deregulation of the Euroyen market would force a similar change on domestic financial markets.

The basic intent of Japan's monetary authorities is to ease the controls on financial markets while maintaining MOF's ability to conduct monetary policy. The concern is that rapid change could affect the ministry's control, especially if financial organizations do not have enough time to adjust to the changes. MOF's position is that Euroyen market liberalization should not precede domestic liberalization.

Based on this desire to proceed with caution, MOF, at the bilateral working group meeting on yen internationalization in Washington April 16-17, framed a short-, mid-, and long-term package devised to relax the rules in the Euroyen market. The plan addressed several U.S. objectives:

- Foreign corporations will be permitted to issue Euroyen bonds in June. Heretofore, the only qualified foreign issuers were governments and international agencies. (On April 1, about 30 major Japanese firms became eligible to issue straight Euroyen bonds and 108 Japanese firms were allowed to issue convertible bonds). The limit on the number of bonds that can be issued will also be relaxed.

- Foreign securities firms will be allowed to be the lead underwriter for Euroyen bonds.

- Short-term certificates of deposit in the Euroyen market will be allowed as of June.

- Short-term untied Euroyen loans to domestic companies will be authorized. (The existing regulations require that untied loans from abroad must be in dollars or other foreign currencies.)

Nevertheless, there is disagreement between officials of the two countries over how much progress was made at the April meeting. While MOF officials want to portray the problems as largely solved, the U.S. side emphasizes remaining problems, such as the fact that MOF rejected U.S. demands for medium- and long-term Euroyen loans and refused to eliminate income tax withholding on Euroyen bonds at the present time. Spokesmen for the ministry say MOF is afraid the elimination of withholding taxes would cause a substantial shift of bond issues from the domestic market, resulting in a reduction of tax revenues.

The question of seats on the Tokyo Stock Exchange has also been relegated to the distant future. The United States has asked for a prompt response, citing the access given to Japanese securities companies to the New York Exchange. Actually, since 1982, the Tokyo Stock Exchange has been open to foreign securities companies. Membership on the exchange is limited to not more than 83 firms, however, and MOF officials say they cannot push for an increase in that number. The majority of the members have resisted any enlargement, which they see as threatening the value of their membership. Moreover, MOF officials are under pressure from the seven local stock exchanges, whose members feel an increase in Tokyo traders would reduce the number of transactions handled locally. Many Japanese securities firms are also anxious to become members of the Tokyo Exchange, which admits applicants from a waiting list only when a vacancy occurs.

Additionally, the MOF failed to approve a joint-venture application filed by Morgan Guaranty Trust Co. and Nomura Securities Co. to enter the trust banking business, as well as similar proposals between U.S. and Japanese securities firms. The requests are considered too radical for Japan, where financial firms are rather highly segmented by function. Besides separation of banking and securities firms, banking is divided into long-term banks, trust banks and ordinary banks, and is further segregated by city and regional categories. This issue strikes at the heart of MOF's tight control over the financial sector.

Liquor and Tobacco Industries

MOF is also responsible for the alcoholic beverage and tobacco industries. A reduction in the tariff on imported wines is a difficult issue for MOF, which had decided earlier to increase domestic taxes in FY 1984 on all alcoholic beverages, including a 35 percent increase on wines. A tariff cut on the imported variety would make it more competitive, particularly considering the tax increase on domestically produced wines. An official in charge of tax policy told JEI that "for Japan's wine manufacturers, the tariff cut combined with the domestic tax increase is a double shock. We will have to work hard to persuade them."

Administration of the tobacco industry is under the direction of the Japan Tobacco and Salt Public Corp. (JTS), with which Finance has a very close relationship. The corporation is under attack from the United States and the Administrative Reform Council to abandon its monopoly of the tobacco industry. The Nakasone administration had said it intended to settle the problem by reorganizing the corporation along the lines of the recently concluded Nippon Telegraph and Telephone Public Corp. reform. However, the legislation approved by the cabinet continues the government's monopoly (see JEI Report No. 16B, April 20, 1984). Despite the council's recommendation that JTS be replaced by a privately owned company, the new legislation gives the government more than two-thirds of the shares in the new tobacco company; it will actually hold 100 percent of the shares for the time being. As for the recommendation to allow imported tobacco to be freely sold at retail outlets rather than through a licensed distribution system, the subject is simply ignored in the new legislation.

The main actors in this showdown were the tobacco growers, whose Diet representatives lobbied vigorously to protect their constituents' interests. MOF and JTS mounted an effective campaign to protect the monopoly. In a statement striking for its candor, Minoru Nagaoka, JTS president, told JEI: "We have tried hard to open Japan's tobacco market, specifically by cutting the tariff from ninety to twenty percent during the past three years. As for the monopoly of the tobacco industry, I would like to keep it a monopoly, at least during the time I am corporation chief."

Prospects for Liberalization

How will MOF respond as those issues which have traditionally been its responsibility become increasingly internationalized? Some people associated with the ministry favor change. Teiichiro Morinaga, the former vice minister of MOF, said in an interview with JEI that "the MOF is backward (about) liberalizing markets. . . . liberalization should be accelerated." In addition, certain structural changes are being forced upon Japan. Capital markets are now subject to major influences arising from international financial transactions. Domestically, the accumulation of low-interest government bonds issued to cover extensive budget deficits has met with resistance from the private sector, and the BOJ has been forced to consider relaxing its control over financial markets. Officials of Finance seem to display the same paternalism that the United States has come to expect from other Japanese government agencies -- notably Agriculture -- which has tried to protect the beef and citrus growers in the name of "national security."

In discussing the agency's style, Naohiro Amaya, a former MITI official, described MOF as a force that fights from a fortress, as compared to MITI forces, which he said fights in the field. This view that MOF imposes its will through a "hardline" approach, while MITI's goals are accomplished with more concern for the sensibilities involved, is common. MOF, in fact, does not have an impressive record in situations where the fortress itself was shaken. In the summer of 1971, every country was shocked by President Nixon's announcement that the United States had decided to stop the convertibility of the dollar into gold. But Japan's reaction was far more exaggerated and emotional than other countries. Even within the MOF it was said that the agency was responsible for making the situation a near-catastrophe. Observers charged that MOF had been far too rigid in maintaining the exchange rate at 360 yen to the dollar, and had too strictly equated the yen rate with the stability of Japan's economy.

Fumiaki Ibuki, who left MOF to run in the lower house elections last December, told JEI that MOF is still responsible for guiding Japan insofar as effective fiscal and monetary policy are concerned. On the other hand, he admitted that circumstances have reduced Finance's overall authority. It remains to be seen whether the ministry can refine and liberalize Japan's monetary policy and begin applying to bilateral issues a non-confrontational dimension that would make progress possible. It is doubtful that liberalization would proceed quickly if left entirely to the ministry, but underlining trends will very likely force changes on Japan's capital markets faster than MOF expects.

For further information, contact Hiroshi Ando.

The views expressed in this report are those of the author and do not necessarily represent those of the Japan Economic Institute.

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Table 1: Organization of MOF

MINISTER OF FINANCE

- Minister's Secretariat
- Budget Bureau
- Tax Bureau
- Customs and Tariff Bureau
- Financial Bureau
- Securities Bureau
- Banking Bureau
  - Insurance Department
  - Banking Inspection Department
- International Finance Bureau

- Mint Bureau
- Printing Bureau
- Customs Training Institute
- Finance Training Institute
- Accounting Officials Training Institute
- Center of Customs Laboratory
- Local Finance Bureau
  - Fukuoka Branch Bureau
  - Local Finance Offices
- Custom Houses
  - Branch Customs
- Okinawa Custom House
  - Branch Customs

- National Tax Administration
  - Commissioner's Secretariat
  - Direct Taxation Department
  - Indirect Taxation Department
  - Collection Department
  - Audit and Intelligence Department
    - National Tax Tribunal
      - Regional National Tax Tribunals
    - National Research Institute of Brewing
    - National Tax College
    - Regional Tax Bureau
      - Tax Offices
    - Okinawa Regional Tax Office
      - Tax Offices

Source: Administrative Management Agency, "Organization of the Government of Japan, 1983"

Table 2: Former Government Officials in the Lower House of the Diet, by Agency

Agency	Total
Ministry of Finance	21
Ministry of International Trade and Industry	8
Ministry of Construction	8
Ministry of Health and Welfare	7
Ministry of Labor	6
Ministry of Agriculture, Forestry and Fisheries	5
National Police Agency	5
Ministry of Transportation	4
Ministry of Foreign Affairs	3
Ministry of Posts and Telecommunications	2
Ministry of Justice	1

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JAPAN · ECONOMIC · INSTITUTE

JEI

REPORT

NO. 17B
April 27, 1984

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Adminstration Officials to Visit Japan

According to Japanese press reports, three top American officials are expected to visit Japan in the near future to discuss various aspects of bilateral relations. The meetings are primarily informational, but existing trade disputes between the two countries could surface at least during one visit.

According to an April 13 report by Kyodo News Service, Vice President George Bush will visit Japan May 8 and 9 to fulfill the long-expected follow-up to President Reagan's trip last November. Secretary of State George Shultz will stop off before Mr. Bush on May 2 to brief Japanese government officials

STATISTICAL SUPPLEMENT

Trade and Payments Data

(in millions of dollars unless otherwise indicated)

	1982	1983	January-February 1983	January-February 1984	December 1983	January 1984	February 1984
Japan's Balance of Payments							
Trade Balance	$ 18,079	$ 31,649*	$ 1,560	$ 3,416*	$ 3,863*	$ 290*	$ 3,126*
Exports (f.o.b.)	137,663	145,429*	20,351	23,192*	14,866*	10,126*	13,066*
Imports (f.o.b.)	119,584	113,780*	18,791	19,776*	11,003*	9,836*	9,940*
Current Account Balance	6,850	21,024*	-636	1,484*	3,315*	-526*	2,010*
Long-Term Capital (net)	-14,969	-17,798*	-680	-3,969*	-1,882*	-1,738*	-2,231*
Overall Balance	-4,971	5,177	-905	-2,537	1,037	-2,383	-154
International Reserves (end of period)	23,262	24,496	23,754	24,984	24,496	24,669	24,984
Japan's Customs Clearance Trade							
Trade Balance	6,900	20,534	-296	1,347*	2,884	-835	2,182*
Exports (f.o.b.)	138,831	146,928	20,263	23,433*	15,244	10,200	13,233*
Cars	18,015	19,535	3,243	3,339*	1,816	1,646	1,693*
Steel	15,645	12,843	1,820	1,934*	1,339	908	1,026*
Imports (c.i.f.)	131,931	126,393	20,558	22,086*	12,360	11,035	11,051*
Crude Oil	46,274	40,063	7,711	6,796*	4,286	3,283	3,513*
Japan-U.S. Trade							
Trade Balance	12,151	18,181	1,703	3,408*	2,208	1,265	2,141*
Exports (f.o.b.)	36,330	42,829	5,350	7,811*	4,663	3,407	4,404*
Imports (c.i.f.)	24,179	24,648	3,647	4,403*	2,455	2,141	2,262*
Yen-Dollar Exchange Rate							
Tokyo Spot Market (end of period)	Y235.00	Y232.20	---	---	Y232.20	Y234.80	Y233.50
U.S.-Japan Trade							
Trade Balance	-16,778	-19,289	-2,823	-4,581	-1,721	-2,760	-1,821
Exports (f.a.s.)	20,966	21,894	3,025	3,667	2,085	1,854	1,813
Industrial Supplies	9,173	8,734	1,296	1,450	875	724	726
Food and Feed	4,971	5,555	753	964	437	525	439
Capital Goods	4,434	5,116	608	826	567	391	435
Consumer Goods	1,356	1,394	213	228	112	109	119
Imports (Customs)	37,744	41,183	5,848	8,248	3,807	4,614	3,634
Automotive Products	12,890	14,919	2,187	2,636	1,443	1,515	1,121
Industrial Supplies	6,795	5,391	805	1,177	493	609	568
Consumer Goods	7,842	8,296	1,158	1,573	768	868	705
Capital Goods	9,530	11,896	1,600	2,719	1,045	1,547	1,172

*Preliminary

Japanese Economic Indicators

(percentage change from year-earlier period unless otherwise indicated)

	1982	1983	January 1983	January 1984	November 1983	December 1983	January 1984
Discount Rate (end of period)	5.5%	5.0%	5.5%	5.0%	5.0%	5.0%	5.0%
Outstanding Money Supply	9.2%	7.4%	7.7%	7.6%	6.8%	7.6%	7.6%
Industrial Production	0.3%	3.6%	-1.5%	10.0%	7.9%	9.6%	10.0%
Manufacturing Operating Rate	-2.9%	1.6%	-3.2%	7.7%	7.1%	8.9%	7.7%
Number of Bankruptcies	-2.8%	11.9%	1.1%	19.3%	17.7%	16.6%	19.3%
Residential Construction Starts	-0.5%	-0.8%	20.7%	-11.7%	-1.6%	6.9%	-11.7%
Job Openings to Applications (ratio)	0.61	0.60	0.59	0.64	0.62	0.63	0.64
Nominal Wages	4.5%	3.5%	5.9%	3.3%	2.6%	3.0%	3.3%
Labor Productivity	1.0%	n.a.	n.a.	n.a.	9.8%	n.a.	n.a.
Wholesale Prices	1.8%	-2.2%	-0.1%	-1.4%	-3.7%	-2.2%	-1.4%
Consumer Prices	2.7%	1.9%	2.0%	1.8%	1.8%	1.8%	1.8%
Yen-Based Export Prices	3.9%	-6.0%	-3.5%	-1.0%	-6.8%	-3.1%	-1.0%
Yen-Based Import Prices	7.9%	-7.9%	2.6%	-6.5%	-14.2%	-9.5%	-6.5%

For Japan's most recent GNP figures, see JEI Report No. 13B, March 30, 1984.

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JAPAN · ECONOMIC · INSTITUTE

JEI

REPORT

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May 4, 1984

JAPAN'S FISCAL POLICY

Summary

Japan's fiscal policy has undergone a startling transformation since the end of World War II, both in terms of goals and tools. Evolving from a position as an adjunct to monetary policy into the mid-1960s, fiscal policy became the government's primary instrument to sustain economic growth during the 1970s and meet the demands of fiscal reconstruction and administrative reform in the 1980s. Accordingly, its influence on the economy has shifted and it presently acts as neither a brake nor a prod to economic activity. In effect, this suggests that the government has faced the prospect that the end of the high-growth conditions that characterized the previous decades has finally arrived.

Introduction

This anaylsis will discuss not only the development of postwar Japanese fiscal policy but also the goals that dictated its direction. Without going into great detail about the politics involved, an account of the objectives of the Japanese government and the international and domestic factors on which they were based should illustrate the determinants of postwar fiscal policy. First, however, a definition of fiscal policy and fiscal tools will help clarify the analysis.

Fiscal policy operates by shaping taxation and expenditure policies in order to smooth out the swings in economic activity (the booms and busts of the business cycle); contribute to the maintenance of a growing, high-employment economy without excessive inflation or deflation; and achieve certain social

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goals (income redistribution, improved health and education services, etc.). The first point can be described as countercyclical and is basically short-range in nature since its focus is the current state of the business cycle. The effects of policies related to the expansion of the economy and social infrastructure will be considered under long-term fiscal policy.

Countercyclical fiscal policy finds its tools in the current expenditures of the national and local governments. In order to influence current economic activity, current expenditures and tax policies are natural choices for control. Public works, unemployment compensation, welfare payments and even defense spending can be used to spur or rein in the pace of economic activity, just as changes in tax policy can influence the level of consumption. There are many difficulties associated with countercyclical policy, among which a few are most important. Planning and timing are two critical aspects -- large public works programs often require a long lead time and in the interim the need for them may vanish. Even more important is judging when to hit the brakes or step on the gas as the government adjusts spending and taxation policies to economic conditions. The psychological effects of fiscal policy are also important. Since private investment is usually at least as, or more important than, government expenditures, structural factors that influence private investment decisions, like a huge government budget deficit or surplus, are critical in devising countercyclical fiscal policy.

Long-term fiscal policy relies on both micro and macroeconomic tools. If one focuses on the macroeconomic problem of achieving steady economic growth with low unemployment, the long-range influence of the federal budget balance is utilized, either to consistently raise the level of economic activity to the desired growth rate (by running a series of deficits) or to consistently lower it in the face of persistent inflation (by running a series of surpluses). To implement social goals, an adjustment of the composition of expenditures and revenues immediately suggests itself as the primary lever. By targeting public works in depressed areas, structuring the tax system to favor different income groups, providing funds for education, health and the environment, fiscal policy can rather quickly achieve socially valuable changes.

It should be clear that countercyclical and long-term fiscal policies will sometimes conflict, and that political imperatives may influence the result. Moreover, these concepts are theoretical and are often severely warped in the real world. Nonetheless, they provide a baseline for any analysis such as the following.

Historical Overview

Postwar Japan, 1945-50 -- Even though the Japanese did not have sovereign control from 1945-52, the American occupation period is important to the subsequent evolution of Japanese fiscal policy. The Americans had to deal not only with the economic problems of reconstruction and unemployment, but also with the political problems of recasting the government and society into a democratic mold. Economic and political solutions were often intertwined -- land reform, for example. The redistribution of land was intended to enhance

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the farmers' economic security and make them more politically moderate and independent. While land reform did produce the desired political effect, it also transformed the agricultural sector by encouraging productivity increases. This freed up labor to fill the growing demand for industrial workers in the coming decades. Other important legacies of the occupation included the breakup of the major oligopolistic conglomerates (zaibatsu); the legalization and restraint of labor unions; and the strengthening of democratic reforms. It is also important to remember that no war reparations were demanded from Japan and both its private and public sectors were permitted to write off the massive war debt, allowing them to start off with a clean slate. Most importantly, the United States did not succeed in its political decentralization reforms -- a strong interventionist bureaucracy was preserved along with a vital private sector.

In the immediate postwar years as the economy tried to reabsorb 6.5 million former Japanese colonists and restore some sort of stability to the nation, Japan faced severe shortages of food and a devastated industrial sector. While the agricultural sector rebounded relatively quickly under the impetus of land reform, the industrial sector was unable to recover its prewar vigor despite liberal applications of government credit. The provision of credit only drove up the inflation rate (the change in the wholesale price index was up as much as 364 percent in 1946, though it dropped to 63 percent by 1949) and put further strains on government finances. It took the authority of the occupation to impose economic reforms, including eliminating budget deficits and curbing credit expansion and bank lending.

The 1950s and 60s -- World War II and the subsequent reconstruction had left Japan far behind the rest of the world in terms of economic output. This gap partly explains why Japan experienced such rapid growth in the 1950s and 1960s. The government encouraged investment through aggressive tax policies and funneled substantial funds into public works and loan programs. In fact, fiscal and monetary policy were used primarily to brake the economy; Japan's growth during recessions was higher than boom levels achieved in the western nations, including the United States. Rapid, long-term growth was the main concern of the government, not countercyclical fiscal policy (though it was actively practiced). This policy goal was expressed in prime minister Ikeda's pledge to double per capita income in ten years.

Several basic principles guided fiscal policy in this period. To maintain a balance-of-payments equilibrium, the government adjusted the timing of stimulative or restrictive actions. It pursued growth with high employment and capacity utilization but stable price levels; taxes were adjusted (yearly if necessary) to keep total tax revenues near 20 percent of gross national product; and a balanced budget was maintained. With a growing savings rate (combined personal and corporate savings totaled nearly 30 percent of national income by the late 1960s) meeting the demands of expanding investment, the government found that the economy did not require a great deal of fiscal stimulus to achieve high growth. In order to keep its international payments situation in balance, current expenditures were used to regulate current demand, while public investment went toward enlarging the potential for future growth. While Japanese expenditures grew more rapidly on average than the expenditures of other governments, including the United States, it ranked no higher as a percentage of GNP (just above 20 percent) than the United States and fell below other western nations. In addition, the balanced budget policy, a holdover from the American occupation which came to mean that long-term borrowing was prohibited, resulted in government savings (excess receipts minus current expenditures) of up to 4 percent of GNP. Government savings usually exceeded even the amount of government investment (which totaled 13-18 percent of gross domestic investment), so that on balance, fiscal policy did not play a stimulative role.

While the economy managed to post 12 percent average annual growth during the 1960s, government expenditures experienced even faster annual rates of increase averaging 17 percent. In a break with the past decade and a half, Prime Minister Sato revoked the balanced budget principle in 1965 in response to a stubborn slowdown of economic activity (GNP growth was "only" 4 percent during 1965). Released from this constraint, fiscal policy became much more flexible and useful since deficit spending and issuance of debt bonds were now possible. This new flexibility expressed itself in a subtle way -- not through a surge in any one particular program, but rather in increased current expenditures in all programs (although the rate of government savings remained about the same, as did the rate of direct public investment). The new funds also found their way into the numerous government loan programs that financed desirable private investment projects. While the ability of the government to counteract the swings of the business cycle was indeed enhanced, it was not the only attractive feature of the new policies.

With rapid growth, the Japanese economy began to play an increasingly larger role in the international trading system. As the trickle of exports from Japan turned into a flood, the impact began to disturb the country's trading partners. In addition, other factors were reshaping the economic and political environment that had been so conducive to rapid economic development, so that by the beginning of the 1970s, Japan had entered a new era of economic and political problems, even though it was not aware of it.

The Record of the 70s -- Nothing brought this change to Japan's attention more sharply than President Nixon's demands in 1971 that Japan revalue its currency upward in response to a monetary crisis in the United States. In quick succession, the Japanese faced a new exchange rate, the U.S. soybean embargo, and the tripling of energy prices. While the first two were mostly jolts to the national psyche, the last shock rattled the economy from top to bottom. The increase in oil prices hit hardest the industries that were the backbone of Japan's rapid industrialization: steel, chemicals and synthetic textiles. The Japanese suddenly found their import bills skyrocketing while export shipments faced drooping markets. The envious record of price stability was marred as the economy attempted to readjust to the new relative price structure. (Wholesale price inflation topped 20 percent in 1973.) The degree to which their economy was linked to the outside world was all too clear.

At the same time, domestic economic factors were also shifting. The process of catching up was practically completed by the beginning of the 1970s, and the rapid increases in productivity made possible by importing foreign technology began to diminish. The movement of labor from the low-productivity agricultural sector to the growing high-productivity industrial sector contracted, diminishing its contribution to growth. Productivity growth, which had been high, declined somewhat, narrowing the gap with rising wages and making investment less profitable. Facing a difficult set of internal and external circumstances, the Japanese found themselves struggling to cope.

While the world had been adjusting to the rapidly expanding Japanese economy, the Japanese had resisted adapting to the country's increasingly important international position. In 25 years they had become the free world's third-largest economy. It now appeared that they had achieved their goal of doubling income at a high international cost -- Japan's very success was a sore point with its allies and trading partners. A high domestic cost was also paid in the form of severe pollution and unjustifiably low investment in social infrastructure. A radical departure from past policies was called for.

High economic growth as the be all and end all of policy was abandoned in favor of a program to restructure Japan's industry to center around high value-added products that did not depend on cheap energy. At the same time, the traditional energy-intense sectors were encouraged to increase their energy efficiency to maintain their international competitiveness. A whole new array of expenditures was initiated aimed at cleaning up the environment and improving national health and living standards. During this reassessment of fiscal policy's role, social spending moved toward a Japanese version of the Great Society, spawning improved pension, unemployment and welfare programs. The immediate effect of the new programs on the budget was small since there were few recipients; this would change in the years to come.

In effect, the changes of the 1970s presented Japan with the first real test of its ability to use fiscal policy to cure several economic ills simultaneously. After the 1973 oil shock, the economy began to rebound but exhibited historically high rates of inflation. While this mirrored the recoveries of the other industrialized nations, it was extremely disconcerting to the Japanese government. For the first time it was faced with two conflicting goals: the economy required real fiscal stimulus because private investment was not able to continue to support a high rate of gross domestic investment on its own; fighting inflation, on the other hand, would require fiscal restraint. The government chose to seek price stability at the expense of growth by clamping a tight lid on fiscal policy until 1976-1977. At that time, it was felt that inflationary pressures had been reduced enough to allow the economy to reinflate. When the economy proved unable to pull itself up on its own, the government opted for a strongly expansionary policy. The decision was partly influenced by international politics and the hard times faced by other industrial economies. In recognition of Japan's new global position, the government bowed to American pressure to reinflate the economy and pull the industrialized world out of recession in tandem with the United States and West Germany. This direction was also an effort to restore the bountiful days of the past decades -- Japanese leaders were still wearing rose-colored glasses in terms of achievable levels of growth.

What followed was a classic binge of deficit financing as the government tried to spend its way out of stagnation. Unfortunately the attempt failed for several reasons: the money was spent inefficiently; the public sector multiplier (the amount of increase in demand from a unit increase in public spending) was declining, lessening the fiscal spree's effects; Japanese consumers remained pessimistic so that private demand did not respond to the increase in public spending; the world economy did not recover as other governments emphasized different economic goals; and finally, the second oil shock caused energy prices to double. By the end of the decade, the results of the expansionary policy were clear:

- Government expenditures as a percentage of GNP (the general budgets of both national and local governments combined) rose from 18.8 percent in 1965 to 27.2 percent in 1980.
- The central government's overall spending grew more rapidly than local governments -- by 1980 central government spending was 58.6 percent of local outlays in comparison to 46.7 percent in 1960.
- The number of public employees grew 2.7 times faster than general employment -- at the beginning of the decade there were 1.61 million public employees; at the end of the decade there were 1.99 million -- a 23.6 percent increase. During the same period, total employment went from 50.94 million to 55.36 million, a rise of 8.7 percent.
- Growth of social security expenditures rose dramatically from 4.7 percent annually in 1970 to 9.9 percent in 1979.
- The cost of servicing the national debt rose from 0.3 percent of budgeted outlays in 1965 to 12.6 percent in 1980. In terms of GNP, interest payments went from less than 0.1 percent to 2.3 percent in this period.
- Expenditures on public works declined. In 1965 they were 19.8 percent of the general budget (2.2 percent of GNP); in 1972 they peaked at 21.8 percent of outlays (2.7 percent of GNP); and by 1980 they dropped to 15.6 percent of expenditures (2.8 percent of GNP).
- Taxes as a percentage of GNP topped 24 percent in 1980 compared to 18.4 percent in 1965.
- After FY 1978, social security contributions no longer covered social security payments.
- Total direct taxes covered only 60 percent of total expenditures by the end of the 1970s, a sharp drop from the 80 percent coverage in the late 1960s.
- The expansion and targeting of expenditures successfully narrowed the income differential between geographical areas.
- The anti-pollution measures began to show very positive results.

Policy Problems

Entering the 1980s, Japan faced a social security system that was growing at an alarming rate, deteriorating local governmental finances, rapidly escalating debt-servicing costs, and mounting foreign demands that it liberalize its markets and take on a larger share of the burdens of international security.

Budget Deficits -- According to government estimates, the accumulated deficit will top Y122.5 trillion ($544.5 billion) in FY 1984 -- 42.8 percent of estimated GNP. A comparison with U.S. estimates of federal debt equal to 42.1 percent ($1.2 trillion) of GNP in 1984 indicates the magnitude of the task of fiscal reconstruction. (Statistics for the U.S. and Japan are summarized in Table 1.) Interest payments on the debt are budgeted at Y9.2 trillion ($36 billion) -- an increase of 11.7 percent from 1983's outlays. Interest payments now account for 18.1 percent of the total general budget, up nearly one-third from just four years ago. The beginning of the rapid expansion of bond issues can be traced to 1974-1975 when bond issues rose from Y2.2 trillion ($6 billion) to Y5.3 trillion ($14.8 billion). Growing quickly, bond issues rose to a high of Y14.34 trillion ($55.3 billion) in 1982, but have since fallen to Y12.7 trillion in 1984 ($56.4 billion).

Since 1981, the Ministry of Finance (MOF) has been trying to enforce strong austerity measures. Negotiations over each ministry's budget are long and hard, but MOF usually gets its way. Again, politicians will step in to protect certain categories -- recent examples have been science, education, foreign economic aid and defense, which were given increased funding when other areas were cut back. Looking at MOF's track record, its performance at restraining the growth of the general budget is quite impressive. From 1974 to 1979, the general account budget grew an average 18.8 percent a year. From 1980-1984, the annual average rate of growth was cut to just 5.7 percent, with a 1.4 percent increase in FY 1983 and an even smaller 0.5 percent increase in FY 1984 (see Table 2).

General account expenditures by category (Table 3) show that social security outlays as a percentage of the budget have been harnessed, dropping to 18.4 percent in 1984 from a high of 19.7 percent in 1978.(As a percentage of GNP, however, social security remains almost 3.3 percent.) Outlays for education and science show a slight decline from 10.5 percent to 9.6 percent. Pension costs have fluctuated, reaching 4 percent in 1982 but shrinking to 3.7 percent in 1984. Public works expenditures show a decline from 1982 (15.3 percent of total outlays) to this year (12.9 percent). The allotment for debt payments continues to increase, jumping from 12.6 percent in 1980 to 18.4 percent in 1984.

Expenditures by ministries also show the effects of austerity (see Table 4). In 1980, only two of 12 ministries' budgets declined. This number dropped to one in 1981, rose to five in 1982, to eight in 1983, and fell to five in 1984. The only agency consistently cut was the Ministry of Agriculture, Forestry and Fisheries. The Ministry of Transport's budget has also been cut in three out of the last four years.

The main thrust of government cutbacks has been aimed at slicing social welfare costs through changes in eligibility regulations; reducing government subsidies to unprofitable public corporations (the Japan National Railways, for example); and restraining personnel budgets, which account for about 85 percent of current expenditures.

Administrative Reform -- An ad hoc commision on administrative reform was established in the fall of 1980 to prescribe a diet to slim down the overweight bureaucracy. The commission issued four reports containing these major points:

- Cuts in food subsidies, personnel, social security spending and public works expenditures. (First Report)
- Simplified automobile registration and licensing procedures; eased import and export inspection procedures; and liberalization of the public monopoly corporations. (Second Report)
- Structural changes in the cabinet's authority; establishment of an activity coordinating agency; and decentralization of federal programs. (Third Report)
- Establishment of a permanent commission to oversee reform efforts. (Fourth Report)

Administrative reform has been very successful at cutting back personnel -- a net 1,500 government workers were removed from the payroll in both 1982 and 1983, and this should increase to nearly 4,000 in 1984. It has not been so successful at coordinating government activities to eliminate duplication of effort, or reducing the number of government programs and improving efficiency. This last goal was the original focus of the reform movement, but it has since been subverted to the purpose of helping to solve the deficit problem. It is argued that administrative reform is crucial to deficit reduction -- not that it is intrinsically valuable. This may not be bad in that the reform program may stand a better chance of being implemented if it is linked to the more pressing issue of national debt.

Tax Policy Changes -- Because the administrative reform movement trumpeted the slogan, "fiscal reform without tax increases," the government found itself painted into a corner as far as raising taxes were concerned. In fact, in FY 1983-1984, the government cut income and residential taxes under a compromise with the opposition parties. Tax rates are already on par with levels in other industrialized countries and the Japanese are fearful of catching what they refer to as "advanced country disease" if they increase direct taxes any more. The government's current line of attack proposes an increase in taxes on luxury goods and commodities in order to at least make up the revenue lost in the income-tax cuts. A hike in licensing fees and an expansion of the coverage of existing taxes are under consideration. The opposition is resisting tax increases but the government should be able to boost its receipts from indirect taxes.

Outlook

The fiscal reconstruction drive will effectively straitjacket fiscal policy as a stimulative factor for the medium term. While some progress is being made on reducing the amount of new debt issued to cover current deficits, the maturity date on earlier bond issues is rapidly approaching and the government will have to find some way to deal with its liabilities. Fiscal priorities should remain constant for the medium term as the government encourages new knowledge-intensive industries. At the same time, policies will promote diversification or reduction of capacity in sectors that are losing their competitive edge to the newly industrializing countries. Tax policy, as hinted previously, is not likely to change. Consideration of new corporate taxes or adjustments in the tax rates will keep the Diet busy, but the likely outcome suggests only marginal change.

What is most striking about current Japanese fiscal policy is its contrast with policies of previous decades. During the high growth years, government forecasts on which fiscal policy relies constantly underestimated growth and therefore fiscal policy played a restraining role on the current activities of an over-ebullient private sector while simultaneously laying a foundation for continued growth. The 1970s were characterized by an over-optimistic outlook that led the economy onto a steeper rollercoaster ride than might have been expected. The shift to real stimulation proved to be too much for Japanese planners, who failed to grasp the significance of changes in the domestic and international environment. Current policy is unusual for its realism -- recent economic forecasts have turned out to be very close to the mark and the bureaucracy has shown unusual discipline in adhering to fiscal plans. Japan's fiscal policy for the next few years is expected to follow this same course.

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The views in this report are those of the author and do not necessarily represent those of the Japan Economic Institute.

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Table 1: U.S. and Japanese Budget Deficits 1946-1984

	1946	1950	1955	1960	1965	1966	1967	1968	1969	1970	1971	1972
Japan (in billions of yen)												
Current Deficit	Y44.5	*	*	*	197.2	665.6	709.4	462.1	412.6	347.2	1,187.1	1,950.0
as % of Budget	38.6%	*	*	*	5.3	14.9	13.6	7.8	6.0	4.2	12.4	16.3
as % of GNP	9.4%	*	*	*	0.6	1.7	1.6	0.9	0.7	0.5	1.5	2.0
Debt Service Outlays	Y5.5	58.4	44.2	26.5	22.0	48.9	115.3	201.3	278.8	290.9	313.9	455.4
as % of Budget	4.8%	9.2	4.3	1.5	0.6	1.1	2.3	3.5	4.1	3.7	3.4	4.0
Accumulated Debt	Y173.1	341.4	514.7	520.9	786.0	875.0	1,595.0	2,054.4	2,463.4	2,811.2	3,952.1	5,818.6
as % of GNP	36.5%	8.7	6.2	3.2	2.3	2.2	3.5	3.8	3.8	3.7	4.8	6.0
U.S. (in billions of dollars)												
Current Deficit	$15.9	3.1	3.0	*	1.6	3.8	8.7	25.2	*	2.8	23.0	23.4
as % of Budget	28.8%	7.8	4.6	*	1.4	2.8	5.5	14.1	*	1.4	10.9	10.1
as % of GNP**	7.6%	1.1	0.7	*	0.2	0.5	1.1	2.9	*	0.3	2.1	2.0
Debt Service Outlays	$4.7	5.7	6.4	5.6	8.2	8.7	9.6	10.4	11.9	13.5	14.0	14.0
as % of Budget	7.8%	14.5	9.9	6.1	6.9	6.5	6.1	5.8	6.5	6.9	6.7	6.1
Accumulated Debt	$271.0	256.9	274.4	290.9	323.2	329.5	341.3	369.8	367.1	382.6	409.5	437.3
as % of GNP**	129.2%	89.7	68.6	57.4	46.8	43.6	42.7	42.3	38.9	38.5	38.0	36.9

	1973	1974	1975	1976***	1977	1978	1979	1980	1981	1982	1983****	1984****
Japan (in billions of yen)												
Current Deficit	Y1,766.2	2,160.0	5,280.5	7,198.2	9,561.2	10,674.0	13,472.0	14,170.2	12,899.9	14,044.7	13,345.0	12,680.0
as % of Budget	12.0%	11.3	25.3	29.4	32.9	31.3	34.7	32.6	27.5	29.7	26.5	25.0
as % of GNP	2.0%	1.6	3.5	4.2	5.1	5.2	6.1	5.9	5.1	5.4	4.9	4.4
Debt Service Outlays	Y704.5	862.2	1,039.4	1,664.7	2,348.7	3,222.7	4,078.4	5,310.4	6,654.2	7,829.9	8,192.5	9,155.1
as % of Budget	4.9%	5.0	4.9	6.9	8.2	9.4	10.6	12.5	14.2	15.8	16.3	18.1
Accumulated Debt	Y7,550.4	9,658.4	14,973.1	23,076.7	31,902.4	42,615.8	56,087.8	70,509.8	82,273.4	96,482.2	109,827.2	122,507.2
as % of GNP	6.5%	7.0	9.9	13.0	16.9	20.6	25.5	29.3	32.3	36.1	40.0	42.8
U.S. (in billions of dollars)												
Current Deficit	$14.8	4.7	45.2	66.4	44.9	48.8	27.7	59.6	57.6	110.6	195.4	183.7
as % of Budget	6.0%	1.8	13.6	18.2	11.2	10.9	5.6	10.3	8.8	15.2	24.5	21.5
as % of GNP**	1.1%	0.3	2.9	3.9	2.4	2.3	1.1	2.3	1.9	3.6	5.9	5.1
Debt Service Outlays	$15.7	19.6	21.7	25.2	28.4	33.5	40.6	50.7	67.7	82.2	90.6	108.6
as % of Budget	6.4%	7.3	6.7	6.9	7.1	7.5	8.3	8.8	10.3	11.3	11.4	12.7
Accumulated Debt	$468.4	486.2	549.1	631.9	709.1	780.4	833.8	914.3	1,003.9	1,147.0	1,381.9	1,519.6
as % of GNP**	35.3%	33.9	35.1	36.8	37.2	36.1	34.5	34.7	34.0	37.3	41.8	42.1

* None or surplus
** Calendar year GNP figures and fiscal year budget figures are used in the U.S. calculations, creating a slight inconsistency.
*** In 1976, the beginning of the U.S. fiscal year was changed from July 1 to October 1, and the figures for the three month transition period are not included in the statistics.
**** Estimated

Sources: Ministry of Finance, Budget Bureau; Council of Economic Advisers, Economic Report of the President, 1984.

Table 2: U.S. and Japanese Budgets: Revenues & Expenditures, 1946-1984

(percentage change from previous year in parenthesis)

	Japan (in billions of yen)				U.S. (in billions of dollars)			
	Revenues		Expenditures		Revenues		Expenditures	
1946	Y74.4	(413.1%)	Y115.2	(435.8%)	$39.3	(-13.1%)	$55.2	(-40.5%)
1950	716.8	(-5.5)	633.3	(-9.5)	39.5	(0.3)	42.6	(9.8)
1955	1,126.4	(-5.0)	1,018.2	(-2.2)	65.5	(-6.0)	68.5	(-3.4)
1960	1,961.0	(22.8)	1,743.1	(16.6)	92.5	(16.8)	92.2	(0.1)
1965	3,575.9	(7.0)	3,723.0	(11.5)	116.8	(3.6)	118.4	(-0.2)
1966	3,886.0	(8.7)	4,459.2	(19.8)	130.9	(12.1)	134.7	(13.8)
1967	4,472.4	(15.1)	5,203.4	(16.7)	148.9	(13.8)	157.6	(17.0)
1968	5,597.8	(25.2)	5,937.1	(14.1)	153.0	(2.8)	178.1	(13.0)
1969	6,697.7	(19.6)	6,917.8	(16.5)	186.9	(22.2)	183.6	(3.1)
1970	8,120.0	(21.3)	8,187.7	(18.4)	192.8	(3.2)	195.7	(6.6)
1971	8,783.7	(8.2)	9,561.1	(16.8)	187.1	(-3.0)	210.2	(7.4)
1972	10,843.9	(23.5)	11,932.2	(24.8)	207.3	(10.8)	230.7	(9.8)
1973	13,462.6	(24.1)	15,272.6	(28.0)	230.8	(11.3)	245.6	(6.5)
1974	18,218.1	(35.3)	19,099.8	(25.1)	263.2	(14.0)	267.9	(9.1)
1975	16,192.9	(-11.1)	20,860.9	(9.2)	279.1	(6.0)	324.2	(21.0)
1976*	17,877.8	(10.4)	24,467.1	(17.3)	298.1	(6.8)	364.5	(12.4)
1977	19,872.4	(11.2)	29,059.5	(18.8)	355.6	(19.3)	400.5	(9.9)
1978	24,233.3	(21.9)	34,096.0	(17.3)	399.6	(12.4)	448.4	(12.0)
1979	26,307.2	(8.6)	38,789.8	(13.8)	463.3	(15.9)	491.0	(7.3)
1980	29,871.0	(13.5)	43,405.0	(11.9)	517.1	(11.6)	576.7	(19.9)
1981	34,503.0	(15.5)	46,921.0	(8.1)	599.3	(15.9)	657.2	(14.0)
1982	33,217.1	(-3.7)	47,562.1	(1.4)	617.8	(3.1)	728.4	(10.8)
1983	37,034.6	(11.5)	50,379.6	(5.9)	600.6	(-2.8)	796.0	(9.3)
1984**	37,947.2	(2.5)	50,627.2	(0.5)	670.1	(11.6)	853.8	(7.3)

* Transition quarter figures (July 1 to September 30) are not included in the U.S. statistics for 1976.

** Estimated

Sources: Ministry of Finance, Budget Bureau; Council of Economic Advisers, Economic Report of the President, 1984.

Table 3: Japan's General Account Expenditures by Major Category, 1950-1984

(percent of budget and percent of GNP)

	Social Security		Pensions		Debt Interest		Education & Science		Local Finance		Public Works		Other	
1950	7.7%	1.2%	0.8%	0.1%	9.2%	1.5%	17.4%	2.8%	17.1%	2.7%	33.5%	5.4%	14.3%	2.3%
1955	13.8	1.7	8.7	1.1	4.3	0.5	12.3	1.5	15.7	1.9	19.6	2.4	25.6	3.2
1960	13.3	1.4	6.7	0.7	1.5	0.2	12.1	1.3	19.1	2.1	26.3	2.8	21.0	2.3
1965	14.6	1.6	4.6	0.5	0.3	0.0	13.2	1.5	19.1	0.9	19.8	2.2	28.4	4.4
1966	14.1	1.6	4.3	0.5	1.0	0.1	12.5	1.4	17.5	2.1	19.7	2.2	30.9	3.4
1967	14.2	1.6	4.2	0.5	2.0	0.2	12.4	1.4	18.7	2.1	19.6	2.2	28.9	3.2
1968	14.0	1.5	4.3	0.5	3.3	0.4	11.9	1.3	19.7	2.1	18.0	1.9	28.8	3.1
1969	14.1	1.5	3.8	0.4	4.0	0.4	11.8	1.3	20.7	2.2	17.4	1.9	28.2	3.0
1970	14.1	1.5	3.6	0.4	3.5	0.4	11.7	1.3	21.6	2.4	17.2	1.9	28.3	3.1
1971	14.1	1.6	3.5	0.4	3.3	0.4	11.7	1.4	20.0	2.4	19.5	2.3	27.9	3.2
1972	13.9	1.7	3.0	0.4	3.8	0.5	10.9	1.4	18.7	2.5	21.8	2.7	27.9	3.4
1973	14.5	1.9	3.1	0.4	4.5	0.6	10.6	1.4	21.0	2.8	18.7	2.4	27.6	3.6
1974	16.3	2.3	3.1	0.4	4.4	0.6	11.8	1.6	21.7	3.0	15.5	2.1	27.2	3.8
1975	19.4	2.7	3.6	0.5	5.3	0.7	12.7	1.7	15.9	2.2	15.9	2.2	27.2	3.8
1976	19.6	2.8	4.0	0.6	7.5	1.1	12.2	1.8	15.5	2.3	15.4	2.2	25.8	3.7
1977	19.5	3.0	4.0	0.6	7.9	1.2	11.7	1.8	15.4	2.6	17.0	2.6	24.5	3.7
1978	19.7	3.3	3.9	0.6	9.4	1.6	11.3	1.9	15.4	2.8	16.9	2.8	23.4	3.7
1979	19.3	3.4	3.8	0.7	11.0	2.0	10.9	1.9	14.9	3.0	16.8	3.0	23.3	3.8
1980	18.9	3.4	3.8	0.7	12.6	2.3	10.5	1.9	15.9	3.3	15.6	2.8	22.7	3.8
1981	18.8	3.5	3.8	0.7	14.1	2.6	10.2	1.9	18.5	3.4	14.9	2.8	20.0	3.7
1982	19.2	2.2	4.0	0.7	14.5	2.6	10.2	1.8	16.8	3.0	15.3	2.7	20.0	3.6
1983	18.1	3.3	3.8	0.7	16.3	3.0	9.6	1.8	15.2	2.8	13.2	2.4	23.8	4.4
1984*	18.4	3.3	3.7	0.7	18.1	3.2	9.6	1.7	17.9	3.2	12.9	2.3	19.4	3.4

* Estimated

Source: Ministry of Finance, Budget Bureau.

Table 4: Japan's General Account Expenditures by Ministry, 1950-1984

(in billions of yen)

	Justice	Foreign Affairs	Finance	Education	Health & Welfare	MAFF(1)	MITI(2)	Transport	MPT(3)	Labor	Con-struction	Home Affairs
1950	Y12	Y1	Y96	Y22	Y34	Y49	Y5	Y19	Y6	Y14	Y61	*
1955	20	13	124	126	88	96	7	27	1	31	110	*
1960	30	13	148	210	177	163	18	45	2	41	202	Y339
1965	56	23	156	467	513	397	56	97	4	89	490	730
1966	62	31	240	530	596	557	78	109	4	95	576	848
1967	69	32	394	605	695	570	77	122	5	100	648	1,003
1968	73	35	555	652	769	602	87	139	5	110	673	1,139
1969	84	39	555	755	935	849	100	165	6	108	785	1,485
1970	98	46	624	885	1,120	1,044	97	188	7	118	923	1,795
1971	112	54	666	1,036	1,274	1,153	143	261	7	140	1,235	2,021
1972	130	73	967	1,237	1,645	1,295	169	420	8	153	1,688	2,461
1973	145	88	1,376	1,420	2,093	1,407	210	522	11	169	1,765	2,897
1974	171	125	1,605	1,774	2,868	1,697	255	592	14	199	1,758	3,508
1975	225	135	1,676	2,480	4,031	2,262	296	722	18	358	2,240	3,470
1976	250	154	2,463	2,802	4,839	2,491	303	857	19	339	2,515	4,065
1977	276	175	3,224	3,208	5,653	2,807	320	979	20	380	3,179	4,974
1978	292	202	4,025	3,674	6,719	3,212	441	1,161	23	419	3,654	5,894
1979	311	255	5,180	4,051	7,472	3,578	476	1,281	23	454	4,015	6,839
1980	331	277	6,281	4,365	8,204	3,820	651	1,381	24	434	4,354	8,009
1981	348	289	7,480	4,565	8,825	3,807	720	1,441	25	489	4,483	8,837
1982	353	344	7,998	4,560	9,075	3,453	780	1,435	24	495	4,564	8,124
1983**	359	359	11,656	4,534	9,061	3,239	820	1,400	24	495	4,062	7,790
1984**	375	379	10,384	4,572	9,249	3,097	802	1,349	25	490	3,971	9,156

(1) Ministry of Agriculture, Forests and Fisheries
(2) Ministry of International Trade and Industry
(3) Ministry of Posts and Telecommunications

* The Ministry of Home Affairs was created in 1960
** Estimated

Source: Ministry of Finance, Budget Bureau

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REPORT

NO. 19A

May 11, 1984

U.S. EXPORTS TO JAPAN: A REVIEW OF 1983 SALES

Summary

Sluggish world market conditions and the continuing high level of the dollar took a heavy toll on U.S. exports in 1983 for the second year in a row. Sales to Japan were one of the few bright spots in the otherwise dismal export picture. Overcoming the twin obstacles of a strong dollar and weak domestic economic growth in the year's first half, exports expanded 4.4 percent to $21.9 billion. Food and feed commodities, which had fallen by 15.7 percent in 1982, led the way, rebounding 11.7 percent to nearly $5.6 billion. Exports of capital goods (including automotive products) reversed course as well, with a 15.4 percent gain to $5.1 billion replacing a year-before loss of 7 percent. Moreover, consumer goods remained firmly entrenched in the plus column, increasing 2.8 percent to $1.4 billion on top of an earlier rise of 2.9 percent. Industrial supplies provided the only sour note as exports, after expanding by 2.1 percent in 1982, contracted 4.8 percent to $8.7 billion, partly in reaction to some overbuying the previous year.

Export Profiles

Industrial Supplies - The much-delayed recovery of Japanese manufacturing output in 1983 brought little relief to U.S. exporters of key intermediate goods since the rebound largely bypassed the smokestack industries that are among the big consumers of imported industrial supplies. Coal was a case in point. Weak domestic demand, particularly in the important construction sector, cut Japanese steel production for the fourth year in a row, dropping it to the lowest level since 1972. This slide obviously did not bode well for American coking coal companies, especially those that are swing suppliers to the steel mills. What really hurt U.S. export prospects, though, was the fact that Japanese steel manufacturers were overcommitted on coking coal deliveries from Australia and Canada. Long-term contracts signed with mines in these two countries during the steel boom of the early 1970s or later in the decade, when concern about future coal shortages swept the industry, saddled steel makers with supplies far in excess of their 1983 coking coal requirements. To make room for these shipments, the mills pared their purchases from U.S. producers, which only have year-to-year delivery contracts. The result: coking coal exports from this country dropped 27.9 percent to 16.1 million tons, while arrivals from Australia went up by a tenth to 31.1 million tons and Canadian deliveries expanded by a slightly smaller margin to 11.3 million tons. With a similar scenario slicing American steam coal shipments to Japanese electric utilities almost in half to 1.7 million tons, U.S. bituminous coal exports contracted 34.3 percent in 1983 to $1 billion.

While homebuilding is not usually considered a smokestack industry, in Japan it shares many of the characteristics of the manufacturing industries covered by this rubric. Japanese housing starts fell in 1983 for the fifth consecutive year and hit a 16-year low. Moreover, the proportion of wooden houses in total residential construction edged down again -- a casualty of more prefabricated housing and high-rise apartment buildings. For American and other foreign suppliers of softwood logs for home construction, however, these trends did not translate into the expected shipment decline, even though Japanese wholesalers and sawmills entered 1983 with above-normal stocks. In fact, U.S. log exports, made up almost entirely of softwood species, expanded 2.5 percent to 2 billion-plus board feet, leading to another hike in inventories. Moreover, neither the housing slump nor the increased competitiveness of Japanese lumber cut from foreign logs curtailed purchases of American lumber, which inched up 0.6 percent to 632 million board feet. Sawmills here picked up some of the slack from lower Canadian lumber exports, but the main factor propping up U.S. shipments was a planned inventory buildup in Japan. Unfortunately, higher shipment levels did not cancel out the effects of weak Pacific Northwest softwood log prices, and the value of log and lumber exports fell 13.9 percent to $0.9 billion.

For other groups of U.S. exporters, the problems of Japan's smokestack industries meant new or expanded sales opportunities. Nowhere was this more obvious than in petroleum refining. Continuing sluggish demand at home forced Japanese oil refiners to cut their operating rate again in 1983. Much of this adjustment fell on heavy (residual) fuel oil, leaving the country particularly short on bunker fuel used in coastal shipping. California petroleum producers, saddled with large inventories of refined products, were well positioned to provide bunker fuel and other products in short Japanese supply, including light (distillate) fuel oil, generally used by industry as a fuel. With shipments of heavy fuel oil up sharply and sales of petroleum coke still rising, U.S. exports of petroleum products increased 3 percent last year to $0.6 billion-plus.

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The Japanese paper and paperboard industry's on-going efforts to deal with the problems of soft domestic demand and reduced international competitiveness had a mixed impact on U.S. exports of paper base stocks in 1983. Demand for wood chips dropped for the third year in a row as mills again increased their consumption of recycled paper to cut costs. In addition, American suppliers of softwood chips continued to lose some sales to Australian exporters of hardwood chips because of the steady shift in Japanese output from kraft and other "brown" papers to finer grades of paper. On the plus side, though, demand for U.S. wood pulp, which was priced more attractively than its raw material, expanded. Scrap paper exporters also benefited from higher Japanese usage of recycled paper. On balance, therefore, sales of paper base stocks only slipped 1 percent to $0.5 billion.

The problems of another structurally depressed industry -- aluminum refining -- also produced mixed results for U.S. exports. Japanese primary ingot production slumped in 1983 to just one-fourth of 1979's level. With resurgent domestic demand and increased export opportunities pulling up the output of aluminum products to a new high, fabricators in Japan had to depend on a record volume of imports for most of their primary ingot requirements. This country remained the largest foreign supplier, but shipments contracted because rebounding American demand and tight supplies lifted prices in the U.S. spot market well above the prices at which Japanese fabricators could obtain primary ingot from overseas "develop-import" projects or under long-term contract. Sales of aluminum scrap to secondary smelters, which use it to produce ingot mainly for castings but also for beverage-can sheet, expanded, however, largely because of increased foreign demand for Japanese-made can stock. This expansion was enough to push combined U.S. exports of primary ingot and scrap up 11.9 percent to just under $0.6 billion.

Operating conditions in Japan's struggling petrochemical industry improved in 1983, mainly because of lower-cost supplies of its primary feedstock and fuel, naphtha, and the closure of small, inefficient plants for the production of ethylene, one of the basic building blocks for petrochemical intermediates. This progress did not erase the overall cost advantage American producers enjoy in commodity petrochemical intermediates like styrene monomer among the products derived from aromatics (cyclics) and ethylene dichloride and acrylonitrile among the intermediates based on ethylene, propylene and other olefins (acyclics). In some specific commodity products, though, American exporters did lose their edge because the improvement in the Japanese industry's cost structure occurred at a time of recovery-triggered U.S. price hikes. The 1983 export record for petrochemical intermediates was therefore checkered, with cyclic products generally stronger than acyclic compounds. On top of declines in a number of other key chemical exports, most notably radioactive isotopes, the mixed performance of petrochemicals produced a 4.2 percent dip in chemical sales to $1.3 billion.

Food and Feed - Perhaps no major U.S. export faced more uncertain market prospects in 1983 than corn. Japanese demand for livestock and poultry mixed feed -- the end use for three-fourths of corn imports -- had revived in 1982 after two years of no growth, but traders were concerned that higher corn prices and/or lower prices for eggs, milk, broiler meat, pork and beef would choke off the recovery. Their principal fear was that the surge in U.S. corn prices, triggered by last summer's severe drought and the government's payment-in-kind program, would lead to a big hike in commercially mixed feed prices. List prices did jump twice in 1983's second half, but by using industry-generated or government-supported price stabilization funds, Japanese feed mills were able to maintain 1983 retail mixed feed prices below the levels that had prevailed in 1981 and the first three quarters of 1982. On top of relatively favorable prices for all livestock and poultry products except eggs, the cut in the effective price of mixed feed produced record demand for formula feed. By itself, this development meant extra sales for U.S. corn exporters. In addition, though, corn/sorghum price ratios were tilted for much of the year in favor of increased corn usage. With drought limiting exportable supplies in other corn-exporting countries, American growers reaped double benefit from the strong expansion in Japanese mixed feed production. Equally important, tight supplies of South African maize also enabled U.S. exporters to recapture a significant share of Japan's increasing trade in corn for manufacturing corn sweeteners, corn starch and other processed products. This combination made 1983 a banner year for corn exports: volume climbed 14.1 percent to 513.7 million bushels and sales jumped 37.5 percent to just under $1.8 billion.

Last year also turned out to be a record-shattering year for soybean exports. Despite continued gains in vegetable oil consumption, Japanese oilseed crushers had limited the size of the soybean crush in both 1981 and 1982 because of relatively weak demand for soybean meal in livestock and poultry mixed feed. The sizable expansion in formula feed production in 1983, especially increases in broiler and hog rations, in tandem with a further rise in soybean oil demand eliminated the ceiling on the crush, however. Also helping to boost the crush to a new peak level was another shift in relative protein meal prices. Price ratios, which had favored greater use of rapeseed meal in mixed feed through most of 1982, tilted back toward soybean meal usage, although the soybean meal content of feed did fall late in the year in reaction to drought-induced hikes in the price of U.S. soybeans. Higher feed production and attractive soybean meal prices alone virtually insured all-time-high soybean shipments by the United States -- the supplier of all the soybeans crushed by oilseed processors -- even without any apparent rise in sales of food-use soybeans. What guaranteed record sales, though, was overbuying by the Japanese crushing industry, which was concerned that the 1983 U.S. drought might lead to tight supplies and even higher prices than actually materialized. Together, these developments lifted deliveries 11.9 percent to 167.2 million bushels and elevated sales 24.7 percent to $1.2 billion.

Capital Goods - The strong dollar and generally weak Japanese plant and equipment spending could have easily turned 1983 into another year of disappointing sales for U.S. manufacturers of capital goods. Instead, exports of high-technology products increased almost across the board as big corporations, especially those in the industrial and consumer electronics field, earmarked more money for automation, capacity expansion and/or research and development. The rapid pace of office and factory automation in Japan proved to be a particular boon for American makers of data processing equipment. New hardware and software offerings, including a number of products tailored to the local market, and expanded distribution channels helped U.S. vendors tap the bouyant demand for both systems -- whether microcomputers, minis or mainframes -- and add-on peripherals. International Business Machines Corp., which has launched a counteroffensive in Japan to regain the top spot in the computer market, was the big winner, thanks in large part to the success of its new personal computer for office use and continuing brisk sales of its big mainframes. With solid performances by other U.S. competitors, exports of data processing equipment went up 9.3 percent to $0.9 billion.

Commercial aircraft rounded out the list of U.S. high technology products scoring export gains in 1983 as sales, which have become increasingly cyclical in recent years, rebounded 98.5 percent to $0.8 billion. Although weak demand for air services kept their finances shaky, Japan Air Lines (JAL) and All Nippon Airways (ANA), Japan's major domestic carrier, took delivery of 11 new large passenger transports ordered earlier in the 1980s. JAL added four of Boeing Co.'s 747s to its fleet, including two 747-200s and two 747-300 SUDs, a new, stretched jumbo jet costing $99 million each. The international carrier also put another of McDonnell Douglas Corp.'s DC-10s into service. For its part, ANA took delivery of six 767s out of an order for 25 of Boeing's new generation of medium-range, medium-capacity jetliners. JAL's purchase of another used 747 freighter also helped to boost the aircraft export total.

Consumer Goods - While the strong dollar and lackluster Japanese consumer spending trimmed sales of a wide range of U.S. consumer durables and nondurables in 1983, pharmaceutical exports continued to increase -- but by a scaled-back 6.5 percent to $0.5 billion-plus. Sluggish demand for first- and second-generation antibiotics and the strong position of Japanese drug houses in third-generation products held down the growth of American-manufactured antibiotics, as did the stiff competition among Japanese makers for market share. In addition, sales of human serum and other blood derivatives, a second major export line, fell, apparently because of a shortage of blood here.

Export Prospects

At first glance, current forecasts for faster, more balanced economic growth in Japan during 1984 and some rise in the yen's value signal relatively strong prospects this year for American exporters. U.S. manufacturers of capital goods will certainly benefit from an expected step-up in the pace of plant and equipment spending, although Japanese airlines may not take delivery of as many jetliners as they did in 1983. Companies producing consumer goods will also continue to make inroads in the Japanese market, however unspectacular the gains. The outlook for agricultural exports is less clear-cut. Corn and soybean shipments are projected to remain at high levels because of anticipated increases in Japanese mixed feed output, but it is unlikely that exports will duplicate their 1983 record-breaking performances. The biggest question mark, though, is industrial supplies. Coal sales will be significantly lower this year than last, while log and lumber exports will be lucky to match 1983 sales. Whether other intermediate goods take up the slack could mean the difference between a so-so year for U.S. exports to Japan or a good year.

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The views expressed in this report are those of the author and do not necessarily represent those of the Japan Economic Institute.

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U.S. Exports to Japan, by Commodity, 1982 and 1983

(in millions of dollars and indicated quantity units)

Commodity	Quantity 1982	Quantity 1983	Value 1982	Value 1983	Percent Change 1982/83	Japan's Share of U.S. Exports 1983
Total Exports			$20,966.1	$21,894.3	4.4%	10.9%
Industrial Supplies			9,172.9	8,733.6	-4.8	15.4
Bituminous Coal	25,766,013 stn	17,863,672 stn	1,525.4	1,002.0	-34.3	25.0
Coking Coal	22,363,738 stn	16,122,384 stn	1,350.7	919.9	-31.9	33.2
Steam Coal	3,402,275 stn	1,741,288 stn	174.7	82.1	-53.0	6.6
Petroleum Products			620.9	639.4	3.0	14.8
Jet Fuel	1,511,121 bbl	0 bbl	61.8	0.0	-100.0	0.0
Light Fuel Oils	4,428,700 bbl	4,936,624 bbl	168.0	158.8	-5.5	19.8
Number 4-Type Fuel Oils	1,029,184 bbl	18,781 bbl	37.1	0.6	-98.4	0.7
Heavy Fuel Oils	5,644,578 bbl	10,694,435 bbl	162.0	276.7	70.8	17.4
Lubricating Oils			26.2	25.4	-3.1	4.2
Petroleum Coke (excl. calcined)	2,428,538 stn	3,557,732 stn	109.4	130.6	19.4	32.9
Natural Gas	52,534,481 mcf	54,124,064 mcf	291.9	266.8	-8.6	99.5
Propane	9,227 bbl	3,158,108 bbl	0.1	68.4	68,400.0	31.5
Nuclear Reactor Fuels	20,134 lb	26,812 lb	114.8	151.8	32.2	39.2
Logs and Lumber	2,606,263 mbf	2,658,823 mbf	1,045.3	899.7	-13.9	42.8
Douglas-fir Logs	999,502 mbf	1,094,147 mbf	428.5	332.3	-22.5	66.3
Western Hemlock Logs	769,965 mbf	704,951 mbf	285.1	239.4	-16.0	65.7
Lumber	627,543 mbf	631,480 mbf	206.7	208.8	1.0	23.2
Paper Base Stocks			484.0	479.0	-1.0	25.7
Wood Chips	2,508,090 stn	2,288,133 stn	206.8	157.0	-24.1	91.6
Wood Pulp	590,176 stn	716,996 stn	265.8	292.2	9.9	20.4
Waste Paper	105,851 stn	266,163 stn	11.3	28.8	154.9	9.3
Paper and Paper Products			239.2	285.4	19.3	11.9
Newsprint	176,164 stn	181,141 stn	81.5	82.9	1.7	65.2
Kraft Linerboard	117,715 stn	189,494 stn	36.1	53.2	47.4	9.2
Coated Container Base Stock	108,834 stn	135,490 stn	70.2	98.3	40.0	41.2
Chemicals (excl. plastics, fertilizers and insecticides)			1,345.1	1,288.5	-4.2	13.3
Cyclic Hydrocarbons			89.8	88.3	-1.7	13.5
Styrene	57,937 stn	83,179 stn	31.3	44.4	41.9	15.1
Para-xylene	21,127,442 gal	18,293,678 gal	38.8	32.1	-17.3	19.1
Cyclic Organic Intermediate Chemical Compounds			100.1	117.8	17.7	11.8
Alcohols, Phenols and Their Derivatives	27,222 stn	37,384 stn	27.8	37.6	35.3	31.8
Nitrogren Function Compounds and Their Derivatives	9,357 stn	21,630 stn	14.0	29.6	111.4	26.1
Acyclic Organic Chemical Compounds			351.6	336.8	-4.2	16.0
Ethylene Dichloride	220,895 stn	300,517 stn	41.6	66.7	60.3	60.3
Ethylene Glycol	90,953 stn	88,326 stn	30.1	28.7	-4.7	24.6
Vinyl Acetate Monomer	68,661 stn	46,968 stn	28.4	18.8	-33.8	14.5
Acrylonitrile	78,844 stn	103,903 stn	47.5	50.8	6.9	22.2
Uranium and Thorium Compounds	591 stn	369 stn	336.5	268.1	-20.3	39.1
Sodium Compounds			27.6	43.8	58.7	8.5
Color Lakes and Toners, Dyes and Paints			34.3	30.1	-12.2	6.2
Antiknock Compounds and Additives for Lubricating Oils			78.8	64.5	-18.1	9.1
Compound Catalysts (excl. nickel)			28.6	30.8	7.7	15.2
Plastic and Synthetic Resin Compounds			295.5	330.8	11.9	9.7
Poly and Copolymerization Type Thermoplastic Resins	14,472 stn	31,704 stn	33.4	71.1	106.7	30.4
Film, Strips and Sheets			40.8	46.7	14.5	8.0

Commodity	Quantity		Value		Percent Change	Japan's Share of U.S. Exports
	1982	1983	1982	1983	1982/83	1983
Synthetic Rubber			$ 49.1	$ 46.7	-4.9%	8.6%
Fertilizers and Insecticides			248.8	279.1	12.2	8.4
Crude Phosphates	1,247,328 stn	1,684,892 stn	49.7	63.1	27.0	14.9
Fertilizers			95.9	110.1	14.8	8.7
Diammonium Phosphate Fertilizers	335,358 stn	489,961 stn	53.4	75.2	40.8	10.2
Unmixed Pesticides			48.7	48.9	0.4	7.5
Manufactured Pesticides			54.5	57.0	4.6	9.0
Still X-Ray Film	34,836,113 sft	40,044,939 sft	27.1	31.0	14.4	27.0
Photosensitive Papers			29.4	28.5	-3.1	9.8
Steel Scrap	1,529,568 stn	2,599,386 stn	145.1	218.3	50.4	34.3
Nonferrous Ores and Scrap			367.3	308.8	-15.9	21.2
Copper Ore	163,417 stn	32,330 stn	157.2	32.6	-79.3	67.8
Copper Scrap	27,913 stn	21,588 stn	28.6	23.3	-18.5	13.4
Aluminum Scrap	146,357 stn	233,110 stn	106.1	202.5	90.9	80.5
Molybdenum Ore	2,706 stn	2,265 stn	37.4	17.7	-52.7	9.6
Aluminum Ingot	344,608 stn	279,184 stn	392.2	355.1	-9.5	66.5
Unwrought Magnesium	10,787 stn	12,758 stn	21.6	28.3	31.0	25.3
Silver	4,467,184 toz	4,436,696 toz	35.7	51.6	44.5	28.2
Platinum and Platinum Group Metals	201,231 toz	169,779 toz	54.6	54.3	-0.5	46.6
Gold	10,368 toz	95,897 toz	4.4	39.5	797.7	2.9
Iron and Steel (incl. ferroalloys)			45.6	41.5	-9.0	2.8
Unmanufactured Nonmetallic Minerals			92.8	92.4	-0.4	13.4
Kaolin Clay	444,002 stn	415,450 stn	52.8	53.1	0.6	33.6
Manufactured Mineral Supplies			69.2	80.0	15.6	5.7
Industrial Textile Fibers, Yarns and Fabric			71.5	63.5	-11.2	2.7
Raw Cotton	1,486,335 rba	1,394,164 rba	500.6	499.9	-0.1	27.5
Whole Cattle Hides	6,443,988 pc	6,388,331 pc	207.2	224.1	8.2	30.8
Leaf Tobacco	55,159 stn	57,084 stn	309.9	338.5	9.2	23.2
Inedible Tallow	76,424 stn	62,118 stn	33.9	23.8	-29.8	4.5
Food and Feed			4,971.0	5,554.7	11.7	18.0
Corn (excl. seed and popcorn)	450,200,403 bu	513,647,090 bu	1,275.0	1,753.3	37.5	27.5
Sorghum (excl. seed)	73,621,090 bu	25,348,775 bu	205.5	84.1	-59.1	12.0
Soybeans (excl. seed)	149,458,283 bu	167,198,266 bu	970.0	1,209.4	24.7	20.5
Animal Feeds			140.3	158.6	13.0	5.7
Dried Beet Pulp	370,765 stn	402,155 stn	49.4	51.4	4.0	72.2
Alfalfa Meal and Cubes			55.3	66.6	20.4	74.2
Wheat	122,924,724 bu	127,308,710 bu	563.7	589.3	4.5	9.5
Barley	10,832,005 bu	13,923,571 bu	30.5	37.4	22.6	19.5
Fruits and Vegetables			401.2	418.8	4.4	17.1
Lemons	118,258 stn	132,459 stn	69.1	74.2	7.4	79.4
Grapefruit	154,091 stn	185,786 stn	47.3	59.7	26.2	50.9
Oranges and Tangerines	91,502 stn	98,967 stn	51.3	51.9	1.2	22.1
Raisins	17,060 stn	19,664 stn	25.9	22.7	-12.4	25.1
Almonds			37.0	43.5	17.6	17.9
Frozen Vegetables			53.9	61.7	14.5	64.5
Frozen French Fried Potatoes	35,894 stn	41,061 stn	25.4	29.4	15.7	79.4
Meat and Meat Products			529.5	574.2	8.4	48.2
Fresh and Frozen Beef	57,855 stn	65,743 stn	232.4	253.5	9.1	68.4
Fresh and Frozen Beef Offals	34,726 stn	37,065 stn	97.0	84.0	-13.4	38.5
Fresh and Frozen Pork	33,332 stn	37,696 stn	111.4	118.0	5.9	73.1
Fresh and Frozen Poultry	60,313 stn	72,947 stn	67.6	91.5	35.4	35.5

Commodity	Quantity 1982	Quantity 1983	Value 1982	Value 1983	Percent Change 1982/83	Japan's Share of U.S. Exports 1983
Fish and Fish Products			$ 600.4	$ 505.9	-15.7%	55.2%
Fresh and Frozen Whole Salmon	98,407 stn	94,583 stn	316.4	287.9	-9.0	80.7
Fresh and Frozen Whole Herring	32,771 stn	41,700 stn	35.4	52.7	48.9	80.5
Fish Roe	11,106 stn	12,461 stn	95.4	83.2	-12.8	85.8
Frozen Snow Crab	10,861 stn	6,074 stn	61.7	30.7	-50.2	81.0
Capital Goods			4,433.8	5,116.4	15.4	6.1
Nonelectric Machinery			2,874.1	2,936.4	2.2	7.1
Data Processing Equipment			838.3	916.6	9.3	8.3
Computers			205.5	236.0	14.8	10.3
Peripheral Equipment and Parts			573.0	596.5	4.1	7.3
Disk and Tape Storage Units			63.2	71.6	13.3	6.7
Terminals			35.9	37.9	5.6	4.3
Parts			383.5	387.1	0.9	8.0
Magnetic Computer Disks and Tapes			27.1	23.9	-11.8	9.7
Semiconductor Production and Assembly Equipment and Parts			153.6	203.3	32.4	31.0
Measuring, Testing and Controlling Instruments and Parts			457.7	485.8	6.1	10.7
Industrial Process-Type Instruments and Parts			39.3	37.4	-4.8	5.6
Chemical Analysis Equipment and Parts			45.9	45.4	-1.1	9.5
Physical Analysis Equipment and Parts			45.0	54.4	20.9	13.6
Equipment for Testing Electrical, Radio and Communications Circuits and Parts			163.4	174.7	6.9	15.7
Instruments for Measuring or Checking Electrical Quantities and Parts			35.3	41.6	17.8	17.0
Scientific, Professional and Medical Equipment			201.7	225.5	11.8	11.4
Electromedical and Electrotherapeutic Apparatus and Parts (excl. X-ray equipment)			79.2	97.6	23.2	12.5
Medical Equipment Based on X-Rays and Parts			30.7	32.5	5.9	12.8
Other Medical, Dental and Surgical Instruments and Parts			75.7	80.2	5.9	11.0
Power Generating Equipment (excl. aircraft and automotive engines)			87.6	251.2	186.8	10.1
Auxiliary Plant for Steam and Other Vapor Generating Boilers			2.3	68.1	2,860.9	72.4
Gas Turbines and Parts for Mechanical Drives			24.6	87.1	254.1	11.8
Nuclear Reactors and Parts			18.1	26.7	47.5	21.2
Nonfarm Tractors, Parts and Attachments			40.3	32.2	-20.1	2.2
Excavating and Paving Machinery			45.6	36.9	-19.1	2.7
Parts and Accessories for Oil and Gas Field Drilling Equipment			248.8	84.7	-66.0	3.5
Machine Tools and Parts			68.2	50.2	-26.4	7.4
Commercial and Industrial Heating and Cooling Equipment and Parts			45.9	42.4	-7.6	5.4
Pumps and Compressors			47.0	54.1	15.1	3.5
Filtering and Purifying Machinery and Parts			53.2	50.4	-5.3	8.3
Taps, Cocks, Valves and Similar Devices and Parts			36.0	34.9	-3.1	4.9
Equipment for Service Industries			158.2	113.6	-28.2	5.7
Amusement Park Equipment and Parts			35.3	1.5	-95.8	16.9

Commodity	Quantity 1982	Quantity 1983	Value 1982	Value 1983	Percent Change 1982/83	Japan's Share of U.S. Exports 1983
Electric Machinery			$ 571.7	$ 713.2	24.8%	5.4%
Semiconductors			189.4	261.0	37.8	6.0
Integrated Circuits			142.7	200.4	40.4	19.5
Linear Integrated Circuits	13,243,510 ut	35,366,316 ut	18.1	44.9	148.1	26.4
Radar Apparatus (excl. for planes and boats) and Parts			54.1	70.0	29.4	17.5
Generators, Transformers and Accessories			52.6	73.3	39.4	4.4
Connectors			30.5	45.0	47.5	14.9
Transportation Equipment			988.1	1,466.7	48.4	5.0
Civilian Aircraft	8 large transports; 37 general aviation planes and helicopters	12 large transports; 48 general aviation planes and helicopters	420.5	834.8	98.5	14.7
Civilian Aircraft Engines, Parts and Accessories			336.9	361.0	7.2	7.2
Civilian Aircraft Engine Parts			105.4	90.7	-13.9	8.6
Railway Equipment, Parts and Accessories			8.2	45.4	453.7	9.7
Parts for Rolling Stock			6.2	34.1	450.0	39.9
New Cars	3,149 ut	2,322 ut	44.0	31.2	-29.1	0.7
Automotive Parts, Engines and Bodies			124.3	144.5	16.3	1.4
Consumer Goods			1,356.1	1,394.4	2.8	10.4
Pharmaceuticals			510.7	543.8	6.5	20.6
Bulk Antibiotics			141.3	146.8	4.0	21.8
Blood and Blood Derivatives			161.1	138.9	-13.8	43.2
Cigarettes	237,644,800 pk	273,473,150 pk	67.2	80.4	19.6	7.1
Electric Household Appliances			29.9	37.2	24.4	3.0
Stainless Steel Cooking and Kitchenware			43.2	67.5	56.3	80.9
Toys and Sporting Goods			131.5	117.2	-10.9	11.4
Golf Equipment			73.5	62.5	-15.0	49.2
Still Film in Cartridges and Rolls	42,762,067 ut	51,572,726 ut	59.3	72.7	22.6	21.5
Clothing			65.4	44.2	-32.4	5.4
Gem Diamonds and Other Gem Stones			54.0	64.1	18.7	14.7
Printed Material			52.1	54.8	5.2	4.1
Miscellaneous			1,032.3	1,095.3	6.1	7.1
Military-Type Goods			298.2	293.8	-1.5	5.0
Other Domestic Exports			433.0	426.8	-1.4	8.5
Military Aircraft Engine Parts			336.7	344.0	2.2	14.2
Re-exports			301.2	374.7	24.4	8.2

Key to quantity abbreviations:

bbl = barrels
bu = bushels
gal = gallons

lb = pounds
mbf = thousand board feet
mcf = thousand cubic feet

pc = pieces
pk = packs
rba = running bales

sft = square feet
stn = short tons
toz = troy ounces
ut = units

Source: U.S. Department of Commerce, U.S. Exports: Schedule E Commodity by Country (FT 410), December 1982 and December 1983.

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JAPAN · ECONOMIC · INSTITUTE

JEI

REPORT

NO. 20A

May 18, 1984

THE JAPANESE ECONOMY IN 1983

Summary

While the United States entered 1983 rebounding from recession, and Europe at least tentatively began to recover, the outlook in Japan did not improve until the second half of the year. In fact, 1983 marked the first time since 1976 that economic growth in the United States actually outpaced Japan's. Exports continued to be the leading growth sector in Japan, with continued weak performances in most domestic areas dampening the country's imports.

In spite of disappointing growth, the government was unable to find a solution that would stimulate the economy. Although very low rates of inflation prevailed, Tokyo was constrained in its ability to further lower interest rates out of fear that this would only result in a depreciation of the yen against the dollar, exacerbating the already tense international scene. Fiscal policy was an equally thorny issue because of the continued commitment to reducing the size of the government deficit. In this environment, the government could only sit by and hope that the growth of exports would spill over into a broader rebound. While there were some signs of this by the end of the year, they were still uncertain.

GNP Growth

Preliminary statistics show Japan's real (inflation-adjusted) gross national product (GNP) grew at a 3.0 percent rate in 1983, down from 3.3

percent in 1982 (see attached table). In fact, the rate of growth has been slowing since 1979, when it hit 5.2 percent. Not that this result was a surprise. At the beginning of the year, the Organization for Economic Cooperation and Development (OECD) predicted a growth rate of 3.5 percent; the Japanese government forecast issued by the Economic Planning Agency (EPA) was 3.4 percent -- both more realistic estimates than in previous years. Japan could actually achieve the EPA forecast if growth in the first quarter of 1984 is high enough.

While the overall level of growth was closer to expectations, the pattern was not. The Japanese government had been hoping for an expansion of private domestic sectors, fed by 3.9 percent growth in personal consumption, a 2.6 percent contribution by the residential construction sector, and a 2.9 percent level of private nonresidential fixed investment. While these forecasts refer to the fiscal rather than the calendar year, the data available so far indicate that they were overly optimistic.

The EPA was even farther off the mark with its forecast that the current account in the balance of payments would show a $9 billion surplus. The actual figure came to $24 billion for the calendar year, a new record. In fact, actual growth was much more highly dependent on the external sector than had been anticipated, a development that the Japanese government was uneasy about but was unable or unwilling to alter.

Over the course of the year, GNP growth was quite uneven. With public works expenditures heavily loaded into the first half of the fiscal year, growth was higher in the second and third quarters than in the first or last. From only 0.7 percent (at an annualized real rate) in the January-March quarter, growth jumped to 4.5 percent in the second quarter and 6.2 percent in the third, before slipping to 3.1 percent in the October-December period.

Japan seems to be adjusting to slower growth. In January 1983, the Economic Council proposed steering a 3-4 percent growth rate for the five-year forecast. In August, the cabinet approved a new eight-year economic plan (FY 1983-FY 1990) calling for a 4 percent real GNP growth rate. This seems reasonable, although if the weakness in domestic sectors continues, the goal could be unattainable.

Personal Consumption -- Of all the sectors of the economy, consumer spending is by far the largest, accounting for close to 50 percent of GNP. Although a modest revival in spending was expected in 1983, it failed to materialize, and at 3.3 percent, real growth in consumer spending was only slightly above the overall rate of GNP growth for the year and below 1982's 4.2 percent expansion of consumer spending. Low wage increases were a significant factor in limiting the increase in spending. Wage settlements came in at around 4 percent--which for some industries amounted to the lowest rise in the entire postwar period.

According to government statistics, the income of all worker households rose only 3.2 percent. Regular wage income was up by close to 4 percent, but was pulled down by a small 1.2 percent increase in temporary and bonus income.

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With the continued slow growth, overtime hours did not increase, nor did corporate profits expand enough to justify big bonuses. The limited gains in income meant that disposable (after tax) income increased only 2.6 percent in 1983. Since these are nominal wage and income figures, even the very low rate of consumer price inflation for the year (1.9 percent) brings the real increase in disposable income to only 0.7 percent, far below the 3.0 percent increase in 1982. Only by reducing that portion of disposable income allocated to savings were consumers able to generate even the modest increase in consumer spending indicated in the national income data. Since the ratio of personal savings to personal disposable income has been extraordinarily high in Japan, a drop in savings could fuel a considerable expansion of consumer spending. Nevertheless, the motives for saving seemed relatively unchanged and only a modest reduction in savings occurred during the year.

Private Residential Construction -- The real value of private residential construction displayed an absolute drop of 4.7 percent in 1983, a worse performance than the 0.8 percent dip in the previous year. Always a changeable item, housing declined at annualized rates of 13.4 percent and 41.9 percent in the first two quarters of 1983, followed by large increases of 14.4 percent and 24.6 percent in the last two quarters.

Housing construction starts also declined by 0.8 percent during the year, again larger than the 0.5 percent drop in 1982. However, the fact that spending fell more sharply than starts suggests that the private sector was building smaller residential units, a theory confirmed by a larger contraction in the floor area of new construction than in the number of starts. One reason for this was the rise in the proportion of rental housing being built. With low wage increases hurting the consumer, the proportion of total housing starts accounted for by rental units rose from 22 percent in December 1982 to 32 percent in December 1983. This stands as strong evidence of the sluggish economy, particularly at a time when the baby boom generation ought to be swelling the ranks of first-time home owners. Difficulties were compounded by the availability of financing, which is in turn affected by the amount of credit supplied by the government-owned Housing Loan Corporation. New loans for 1983 showed a marginal increase of 1.0 percent for the year, though this was deceptive because the quarterly figures show a drop, so that new loans in the final quarter of 1983 were 10.3 percent below the corresponding quarter of the previous year. Since the Housing Loan Corporation provides about one-third of all mortgage credit in Japan, its role in stimulating or restraining housing construction is very significant.

Private Nonresidential Investment -- High and increasing investment in productive plant and equipment had been the mainspring of Japanese economic growth in the 1950s and 1960s. However, the slower growth of the 1970s and 1980s brought stagnant investment, and for 1983, private nonresidential fixed investment grew at a real rate of only 2.0 percent, well below the 3.5 percent increase of 1982. However, there was some room for optimism since the quarterly trend was upward. After a real 0.6 percent drop in investment in the first quarter, the April-June quarter turned in a 3.8 percent annualized increase, followed by larger increases of 7.0 percent in the third quarter and 7.8 percent in the fourth quarter. This was being interpreted in Japan as a strong sign that the domestic recovery was underway. Since domestic private and government consumption had been so sluggish, the upturn in business investment seemed to be largely a result of the rise in exports, as evidenced by a 1.6 percent hike in the manufacturing operating rate -- a statistical measure somewhat analogous to the capacity utilization index in the United States. This measure had declined in the previous two years, and was still declining at the beginning of 1983. By the end of the year, though, it was rising sharply.

Change in Inventories -- This item in the national income accounts is always a very capricious, but nevertheless important indicator of economic activity. In 1983, inventories continued to decelerate sharply, with net inventory accumulation falling 69.3 percent from the previous year, compared to a drop of 1.6 percent in 1982. Japanese analysts had been waiting for a long time to see stocks bottom out, and there was some indication that this occurred after the first quarter of 1983; the increases were much larger in the remaining three quarters. As a result of the completion of inventory adjustment, industrial production rose a modest 3.6 percent for the year, compared to a miniscule 0.3 percent in 1982.

Government -- Of the two categories of government spending -- current expenditures and fixed investment -- neither provided much stimulus for the economy in 1983. Current expenditures rose 2.4 percent in real terms for the year, compared to 2.3 percent in 1982. Fixed investment expenditures, on the other hand, dipped 0.2 percent, compared to a 0.0 percent growth in the previous year. The trend clearly shows the impact of concentrating public works expenditures into the first half of the fiscal year. The final quarter of fiscal 1982 (January-March 1983) showed a real drop in government fixed investment at an 11.1 percent annualized rate, reflecting the fact that expenditures had been front-loaded in FY 1982 as well, leaving little to be spent by the final quarter. The start of the new fiscal year brought a jump of 21.6 percent, followed by a smaller 3.5 percent increase in July-September, and a 12.5 percent drop in October-December.

The front loading of expenditures was calculated to achieve two goals. First, there was some hope that a supplementary budget would be passed in the fall, increasing public works expenditures for the second half of the year. This did not materialize. Second, it was a way of juggling expenditures to give the appearance of a more expansive fiscal policy, although the private sector was not fooled.

External Sector -- Since the net external sector is the difference between exports and imports of goods and services, its movement can be much more volatile than the change in either of the two components. Given that caveat, the 27.4 percent real growth in 1983 was rapid, but not extremely high, since it has been known to change by as much as several hundred percent in a single year (over 600 percent in 1980, for example). It was, though, the fastest growing sector last year, and increased at a much higher rate than the 3.5 percent registered in 1982. Thus of the 3.0 percent overall real GNP growth, the net external sector accounted for 1.5 percentage points--far above Japanese expectations.

The growth in net exports was the result of a rather modest 4.8 percent export growth and a 4.7 percent drop in imports. With the volume of oil imports down, the sluggish economy and the high prices of foreign products, it is surprising that exports did not grow more rapidly. Keep in mind that exports and imports can be measured in a variety of ways, and the data in the national income accounts is not the one most often used in describing international developments. However, the balance of payments and the customs clearance data all portray the same picture of a rapidly rising surplus.

Inflation

The brightest piece of news for Japan was the year's very low rate of inflation. Wholesale prices actually declined by 2.2 percent, while consumer prices increased by only 1.9 percent. The slide in wholesale prices was influenced by the change in import prices, since imports have a 12.4 percent weight in the total index. In 1983, import prices declined by 7.8 percent, reflecting the rise in the average value of the yen. In addition, the price of energy imports (petroleum, coal and natural gas) dropped by almost 12 percent, and wholesale prices of domestic products dropped by 0.7 percent. While falling prices of imported raw materials were certainly a factor in this development, slack domestic demand also curtailed upward price pressures.

Overall export prices also declined 6.0 percent, which meant that the appreciation of the yen late in 1982 had little impact on the 1983 price competitiveness of Japanese products. The fact that prices for exports fell more than domestic goods suggests that companies were holding the line on sales tags in order to maintain market share. The one exception was automobiles, where the voluntary export restraints allowed higher sticker prices. However, even here, transport equipment export prices slipped 0.7 percent.

With wholesale prices dropping, consumer prices held at a steady 1.9 percent increase for the year -- the best performance among OECD countries. Consumer prices registering the most rapid ascent were education (up 4.9 percent) and housing (up 3.0 percent). While even these increases were slight, the fact that housing continued to rise in price faster than other sectors is one explanation for sagging housing investment. Given the very low wage increases in the spring of 1983, income growth did not push up prices, nor would higher retail markups have stuck with income rising so little.

Monetary Policy

With inflation running at very low levels and the economy growing more weakly than in the previous year, a further easing of monetary policy to stimulate investment and durable goods consumption might have been a logical choice. In fact, the Bank of Japan (BOJ) discount rate was lowered in October, but this was the only policy move during the year. Behind the reluctance to provide greater monetary stimulus lay the fear of encouraging further capital outflow which would weaken the yen and increase Japanese export price competitiveness, thereby contributing to international trade tensions.

One way to look at the direct outcome of monetary policy is to measure the growth of money supply. The Japanese monetary authorities generally can keep money supply growth closer to the desired targets than the Federal Reserve through "window guidance" policies which control the amount of commercial bank lending. All measures of money supply show lower growth in 1983 than in 1982.

Using year-end comparisons, the increase in modified M1 plus CD (certificates of deposit) grew 6.4 percent in 1983, as compared to 7.8 percent in 1982. Similarly, M2 plus CD grew at 7.3 percent, as compared to the year-earlier 7.9 percent -- suggesting that if anything, there was less monetary stimulus in 1983 than in the previous year.

Interest rates in Japan are under more direct control than the quantity of money and are adjusted by altering the BOJ discount rate, which is analogous to the Federal Reserve discount rate in the United States. The discount rate had last been lowered in December 1981 and there were repeated calls for further cuts through 1982 and the spring of 1983. In fact, in order to persuade reluctant buyers, the government was forced to raise the issue rate of interest on its March offering of government bonds. (Interest rates on these bonds are set through negotiations with the syndicate of financial institutions rather than in an auction market).

Some interest rates were cut in the absence of a discount-rate drop, but not by large amounts. In January, the long-term prime rate was dropped by 0.2 percentage points (from 8.6 percent to 8.2 percent). While this is a decision made by the long-term credit banks, they are heavily influenced by the government. But most market-determined interest rates showed little movement. The interest rate on 10-year government bonds in the resale market (excluding those newly issued at negotiated interest rates to the syndicate) showed very little variation until late in the year, hovering just under 7.9 percent. The gensaki and call rates, two principal short-term financial instruments, also changed very little.

Finally, in September the monetary authorities cut the discount rate 0.5 percentage points because the yen rose against the dollar (from approximately Y246 to Y236) and then strengthened again in October (to Y232). As a result, long-term credit banks, trust companies and insurance firms cut the long-term prime lending rate again by 0.2 percentage points to 8.2 percent, and were followed by the Japan Development Bank, the People's Finance Corporation (which lends to small business) and the Small Business Finance Corporation. The short-term lending rate at commercial banks was also cut by 0.5 percentage points. Thus, the discount rate did have some effect on lowering interest rates, although the effect was limited.

Since the drop in interest rates was small, it seems to have had a very limited impact on the economy. On the other hand, by widening the disparity between Japanese and U.S. interest rates, it may have contributed to capital outflow. The value of the yen on foreign exchange markets did not weaken, but neither did it continue the upward drift against the dollar that had begun in September and October. On balance, the impact of monetary policy during the year was marginal at best.

Fiscal Policy

In the final analysis, the burden of stimulating the economy rested with fiscal policy. But here too, powerful constraints were at work. The Ministry of Finance, pointing to the size of the government deficit, submitted a budget for the fiscal year starting April 1983 that contained only a 1.4 percent increase in discretionary general account expenditures, demonstrating its determination to hold down government spending and reduce the deficit. However, more recent statistical data show an anticipated 6.9 percent increase in total general account expenditures for FY 1983, mainly because of rapidly rising debt service costs amounting to 18.6 percent plus a transfer of funds to close out the books on FY 1981. The only areas allowed substantial increases were defense (up 7.3 percent), foreign aid (up 6.2 percent) and energy (up 6.9 percent), in response to a variety of domestic and international pressures.

Even so, it was expected that 26.5 percent of total spending would have to be deficit financed. While this was below the 30 percent level anticipated for FY 1982, it remained above the earlier hopes of the Finance Ministry. Keep in mind that all budgeted figures for expenditures and revenues are only forecasts and can vary from the revised figures released later in the year or from the final figures once the books are closed.

In the sense that a large portion of government spending was deficit financed, the budget was stimulative, but as compared to the previous year, there was little additional stimulus. Moreover, the government deficit should be seen in light of the overall balance of savings and investment in the economy. With the large surplus of private-sector savings over private-sector investment, the government must run a considerable deficit to absorb the difference. The government's response in 1983 was insufficient to do so, and the rise in the current-account surplus and capital outflow reflected the difference. In that sense the stimulative effect was not meaningful.

FY 1984 Budget Process -- Even before the FY 1983 budget was approved, the Ministry of Finance was shaping the development of future budgets. In February, it released a revised medium-term fiscal outlook (to FY 1986) which would entail a reduction of new bond issues every year by either one-third, one-fifth, or one-seventh. The object was to indicate what the limits would have to be on government spending if the deficits were to be reduced (given certain assumptions about the growth of tax revenues). The report showed the necessity of continued cuts in spending or increases in taxes to achieve even the lowest case (one-seventh) goal.

When the ministry began to consider the budget for FY 1984, it was clear that although the commitment to eliminate the deficit would continue, the magical year in which the budget would be balanced would have to be pushed back to FY 1990, with a planned Y1 trillion ($4.2 billion) reduction in new bond issues each year until that point, a weaker goal than in the medium-term outlook.

By summer, the effort to reduce the budget deficit was complicated by stronger demands for an income-tax cut. Faced with this political probability, the MOF announced that all budget requests (for non-personnel discretionary spending) from ministries and agencies should be 10 percent lower than in the existing budget, except defense, foreign aid, mandated personnel and pension payments, and spending on alternative energy programs. As a result of this pressure, agency budgets submitted in September increased total spending on areas other than debt service and revenue sharing by only 1.0 percent.

Administrative Reform -- An important feature of the fiscal policy process in Japan in the 1980s was the emergence of the administrative reform movement calling for more efficiency in government. The commission urged the government to reorganize and review existing administrative systems in order to reduce epxenditures, called for the elimination of the budget deficit without any major tax increases, and supported a proposal to hold the level of expenditures below the economic growth rate by establishing a ceiling on budget requests. It further recommended converting the three major government-owned corporations (the Japanese National Railways, the Nippon Telegraph and Telephone Public Corp. and the Japan Tobacco and Salt Public Corp.) to private management. The concentration of personal savings in the postal savings system was also to be reexamined.

Of greater significance than the specific proposals, though, was the impact of the commission on general attitudes. Generally the private business sector in Japan endorsed more expansionary economic policies. Through the rubric of the administrative reform movement, however, this stance was reversed, with the business sector (or at least certain parts of it) fully supporting tight controls on government spending. The only bone of contention between the private sector and the government was whether increased taxes should be used to reduce deficits.

Economic Stimulus Package -- In June, an interagency panel was appointed to program a way to stimulate the economy without causing inflation or widening the deficit. On October 21, on the eve of President Reagan's trip to Tokyo, the package was finally released. Domestic growth was to be attained through an $8.1 billion spending program for disaster relief and an infusion of additional funds from the Housing Loan Corp. and the Japan Highway Public Corp. This fiscal stimulus was to be strengthened by an income-tax reduction and additional loans to private industry by the Japan Development Bank. The government was also to support expanded investment by electric power utilities. The package included the cut in the BOJ discount rate considered earlier. Absent from the package, however, was the investment tax credit desired by MITI but opposed by the Ministry of Finance. The announcement was mute on the question of where the funds would come from to finance the increase in spending. In the previous year, a similar exercise had merely shifted money from one account to another without increasing total spending at all. In any case, the national income statistics suggest that the package did nothing to influence the net impact of the government on economic growth. In the final quarter, government fixed investment spending slid an inflation-adjusted 12 percent (at an annualized rate).

While this move provided some fiscal stimulus for the economy, the results came too late in the year to show up. The changes also meant that the goal of reducing government deficits was set back once again, but from the standpoint of macroeconomic savings and investment flows, this was the correct policy to follow. These objectives were imperiled, however, by clashing recommendations from the government's advisory tax council to reduce the tax benefits on retirement allowance reserves and introduce a variety of indirect taxes on passenger cars, liquor, and new products like compact discs and video disc players. The net implication of these developments on fiscal policy in 1983 indicated little change in Japan's basic policy stance. The emphasis was still focused on reducing government deficits rather than stimulating domestic demand.

For further information, contact Edward Lincoln.

The views expressed in this report are those of the author and do not necessarily represent those of the Japan Economic Institute.

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Japan's Real Gross National Product at Constant Prices (1975 Prices)

(in billions of yen, seasonally adjusted, quarterly totals and rates of growth at annual rates)

	1982	1983	January-March 1983	April-June 1983	July-September 1983	October-December 1983
Gross National Product	Y203,908.2 (3.3%)	Y210,112.7 (3.0%)	Y206,423.9 (0.7%)	Y208,683.0 (4.5%)	Y211,856.1 (6.2%)	Y213,496.9 (3.1%)
Personal Consumption Spending	106,945.2 (4.2%)	110,510.8 (3.3%)	109,712.5 (3.0%)	109,915.3 (0.7%)	110,848.1 (3.4%)	111,433.3 (2.1%)
Private Residential Construction	10,685.1 (-0.8%)	10,182.0 (-4.7%)	10,969.5 (-13.4%)	9,577.3 (-41.9%)	9,904.1 (14.4%)	10,464.2 (24.6%)
Private Fixed Nonresidential Investment	35,122.8 (3.5%)	35,810.5 (2.0%)	35,070.6 (-0.6%)	35,400.2 (3.8%)	36,002.0 (7.0%)	36,685.8 (7.8%)
Change in Business Inventories	1,798.9 (-1.6%)	551.9 (-69.3%)	53.4 (*)	884.8 (*)	400.4 (*)	869.6 (*)
Government Current Expenditures	19,258.5 (2.3%)	19,725.2 (2.4%)	19,502.5 (2.0%)	19,622.4 (2.5%)	19,843.5 (4.6%)	19,945.2 (2.1%)
Government Fixed Investment	18,474.8 (0.0%)	18,435.4 (-0.2%)	17,875.3 (-11.1%)	18,768.8 (21.6%)	18,932.2 (3.5%)	18,375.2 (-12.3)
Change in Government Inventories	-333.6 (-14.8%)	-334.4 (-0.2%)	-291.3 (*)	-206.0 (*)	-165.6 (*)	-676.3 (*)
Net External Sector	11,956.6 (5.7%)	15,231.3 (27.4%)	13,531.5 (36.4%)	14,720.2 (40.0%)	16,091.4 (42.8%)	16,399.9 (7.9%)
Exports of Goods and Services and Factor Income Received	40,424.0 (3.5%)	42,357.0 (4.8%)	39,891.5 (-1.7%)	41,108.1 (12.8%)	43,292.3 (23.0%)	44,949.2 (16.2%)
Imports of Goods and Services and Factor Income Paid	28,467.4 (2.5%)	27,125.8 (-4.7%)	26,360.0 (-4.3%)	26,387.9 (0.4%)	27,200.9 (12.9%)	28,549.3 (21.4%)

*Cannot be calculated or meaningless.

Source: Economic Planning Agency

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JAPAN · ECONOMIC · INSTITUTE

JEI REPORT

NO. 21B
June 1, 1984

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Senate Commerce Debates Domestic Content Legislation

The Senate Committee on Commerce, Science and Transportation (Robert Packwood, R, Oregon, chairman) began hearings on domestic content legislation (S. 707 in the Senate; H.R. 1234 in the House) before a packed house after months of delay. The bill, which would mandate significant domestic production of parts for automobiles sold in the United States, was approved by the House on November 3 by a 219-199 vote. The May 16 turnout demonstrated that despite rising automobile sales, economic recovery and higher employment in the domestic automotive industry, passions surrounding the controversial measure have not cooled and the bill's supporters are determined to continue their fight for passage even though the odds may be against it.

Witnesses during the nearly six-hour session represented Congress, the Reagan administration, labor interests, agricultural groups and automobile dealers. Arguments both for and against the bill were familiar. The

STATISTICAL SUPPLEMENT

Trade and Payments Data
(in millions of dollars unless otherwise indicated)

	1982	1983	January-March 1983	January-March 1984	January 1984	February 1984	March 1984
Japan's Balance of Payments							
Trade Balance	$ 18,079	$ 31,454	$ 4,501	$ 7,645*	$ 290*	$ 3,126*	$ 4,229*
Exports (f.o.b.)	137,663	145,468	33,324	38,615*	10,126*	13,066*	15,423*
Imports (f.o.b.)	119,584	114,014	28,823	30,970*	9,836*	9,940*	11,194*
Current Account Balance	6,850	20,799	1,373	4,851*	-526*	2,010*	3,367*
Long-Term Capital (net)	-14,969	-17,700	-2,712	-5,937*	-1,738*	-2,231*	-1,968*
Overall Balance	-4,971	5,177	-308	-3,070	-2,383	-154	-533
International Reserves (end of period)	23,262	24,496	24,015	25,109	24,669	24,984	25,109
Japan's Customs Clearance Trade							
Trade Balance	6,900	20,534	1,741	4,539*	-835	2,179	3,195*
Exports (f.o.b.)	138,831	146,928	33,254	38,992*	10,200	13,244	15,548*
Cars	18,015	19,535	4,658	4,787*	1,646	1,693	1,448*
Steel	15,645	12,843	2,960	3,199*	908	1,025	1,266*
Imports (c.i.f.)	131,931	126,393	31,513	34,453*	11,035	11,065	12,353*
Crude Oil	46,274	40,063	11,502	10,855*	3,283	3,519	4,053*
Japan-U.S. Trade							
Trade Balance	12,151	18,181	2,970	5,826*	1,265	2,141	2,420*
Exports (f.o.b.)	36,330	42,829	8,603	12,503*	3,407	4,407	4,689*
Imports (c.i.f.)	24,179	24,648	5,632	6,676*	2,141	2,266	2,269*
Yen-Dollar Exchange Rate							
Tokyo Spot Market (end of period)	Y235.00	Y232.20	---	---	Y234.80	Y233.50	Y224.70
U.S.-Japan Trade							
Trade Balance	-16,778	-19,289	-4,482	-7,311	-2,760	-1,821	-2,730
Exports (f.a.s.)	20,966	21,894	4,806	5,695	1,854	1,813	2,028
Industrial Supplies	9,173	8,734	2,051	2,225	724	726	775
Food and Feed	4,971	5,555	1,160	1,477	525	439	513
Capital Goods	4,434	5,116	1,021	1,336	391	435	510
Consumer Goods	1,356	1,394	339	355	109	119	127
Imports (Customs)	37,744	41,183	9,288	13,006	4,614	3,634	4,758
Automotive Products	12,890	14,919	3,469	4,207	1,515	1,121	1,571
Industrial Supplies	6,795	5,391	1,257	1,779	609	568	602
Consumer Goods	7,842	8,296	1,846	2,517	868	705	944
Capital Goods	9,530	11,896	2,562	4,295	1,547	1,172	1,576

*Preliminary

STATISTICAL SUPPLEMENT

Japanese Economic Indicators

(percentage change from year-earlier period unless otherwise indicated)

	1982	1983	January-February 1983	January-February 1984	December 1983	January 1984	February 1984
Discount Rate (end of period)	5.5%	5.0%	5.5%	5.0%	5.0%	5.0%	5.0%
Outstanding Money Supply	9.2%	7.4%	7.6%	7.7%	7.6%	7.6%	7.8%
Industrial Production	0.3%	3.6%	-1.4%	11.2%	9.6%	10.0%	12.4%
Manufacturing Operating Rate	-2.9%	1.6%	-3.4%	10.0%	8.9%	7.7%	12.3%
Number of Bankruptcies	-2.8%	11.9%	2.9%	21.1%	16.6%	19.3%	22.8%
Residential Construction Starts	-0.5%	-0.8%	12.2%	-4.3%	6.9%	-11.7%	2.8%
Job Openings to Applications (ratio)	0.61	0.60	0.59	0.65	0.63	0.64	0.65
Nominal Wages	4.5%	3.5%	5.9%	3.6%	3.0%	3.3%	3.8%
Labor Productivity	1.0%	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Wholesale Prices	1.8%	-2.2%	-0.4%	-1.3%	-2.2%	-1.4%	-1.3%
Consumer Prices	2.7%	1.9%	1.9%	2.4%	1.8%	1.8%	2.9%
Yen-Based Export Prices	3.9%	-6.0%	-4.5%	-0.6%	-3.1%	-1.0%	-0.2%
Yen-Based Import Prices	7.9%	-7.8%	1.2%	-6.7%	-9.5%	-6.5%	-6.8%

For Japan's most recent GNP figures, see JEI Report No. 13B, March 30, 1984.

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JEI

REPORT

NO. 22A June 8, 1984

THE BEEF AND CITRUS ISSUE: A FRAGILE SHOCK ABSORBER

Summary

After the long battle with the United States over agricultural trade issues, Japanese negotiators have turned their minds to the inevitable next round of consultations. In pursuit of more reasonable and low-key diplomacy, Japanese participants are considering some kind of framework more appropriate to an issue as sensitive as agricultural trade.

This paper will review the background of the dispute over market access for agricultural commodities, with specific reference to the recent trade negotiations over beef and citrus quotas. Prospects for future talks and the importance of arriving at a response with due consideration for Japan's other trading partners will be discussed.

Industrial and Political Background

A number of critical questions need to be answered in order to understand the background of the recent agricultural trade disputes: Why are the interests of a small segment of the population so heavily protected, and how can a few farmers cause such serious friction between two economic superpowers? More specifically, why are beef and citrus quotas retained in the face of opposition from Japan's powerful business community, whose interests lie in responding to the United States' complaints about Japan's record trade surpluses? And why is the Japanese farmer immune to criticism from Japanese consumers, who are forced to buy beef and citrus products at far higher prices because of the import limits?

To explain these apparently incongruous circumstances, it is necessary to examine the balance of power between agriculture and industry in Japan. The political support of farm groups forms the foundation of the conservative Liberal Democratic Party (LDP). The majority power in the Diet for the last 30 years, the LDP is substantially supported by rural voters. Politically, the interests of beef and citrus farmers are represented by Nokyo, the powerful agricultural cooperative. Despite the sharp postwar decline in the ratio of farmers and the ratio of agricultural production, farmers politically play a very strong role. Last year, when Nokyo polled all the political parties about the desirability of liberalizing agricultural trade, predictably, every party except the New Liberal Club opposed it; Japan's electoral structure greatly favors rural votes. Indeed, it is almost impossible to name a single Dietman who openly advocates liberalization of the agricultural market, especially vis-a-vis beef and citrus quotas.

Consumers

Compared to the farmers' disproportionately powerful position against market liberalization, the consumer's voice is remarkably weak. Liberalization would significantly reduce the price of government-regulated agricultural products -- especially beef and citrus -- to the obvious advantage of the consumer. Incredibly, however, Japanese consumers have made no concentrated protest. In fact, whenever the subject of agricultural trade is discussed with Japanese consumer groups, they invariably proclaim themselves opposed to liberalization.

Historically, this opposition is founded on concern for a secure food supply and the value placed on this feature despite the fact that it is more expensive to protect domestic products than to purchase imported commodities. To many Japanese who remember severe wartime food shortages, that memory was vividly recalled in the summer of 1973 when the United States embargoed soybean exports -- a product of considerable importance to Japan. Ironically, Japan had almost given up domestic soybean production following the aggressive increase in American soybean exports.

Japanese consumer groups have another reason to oppose liberalization; the preference for domestically grown produce which is protected by the government against inappropriate use of preservatives. A specific incident several years ago reinforced consumer organizations' distrust of imported agricultural produce. In 1977 and 1978, the United States successfully pressed the Japanese government to import citrus which Japan had previously banned. The lemons were considered unsafe because of the application of a certain preservative prohibited in Japan.

Organized Business Groups

Some of Japan's powerful business groups have supported the liberalization of agricultural imports. To members of these organizations, trade with the United States makes it imperative that the government act to ease trade tensions. In fact, last year, one organization called the Committee

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for Economic Development (Keizai Doyukai) proposed a five-year plan to achieve complete liberalization of Japan's market. Yet the group made no significant attempt to lobby for this position when the agricultural trade talks were under way. One reason, according to a Keidanren (the Federation of Economic Organizations) economist is that this position is politically difficult to express publicly. Early this year, for instance, farm organizations in Hokkaido targeted certain companies -- including Sony Corp. -- whose executives had spoken out in favor of the elimination of trade barriers on agricultural commodities and attempted a boycott of the firms' products. The farmers had begun to feel the squeeze between American insistence on market opening measures and the Japanese government's tight-fisted stance on agricultural subsidies. Cuts in farm subsidies are part of the overall government austerity program strongly cheered by the business community.

The Press and Academia

The Japanese press has generally been sympathetic to calls for trade liberalization, and economists and academic representatives are also philosophically inclined to support free trade. One group of professors and economists, after extensive research on Japanese agriculture, concluded last year that the market should be completely liberalized in the next five years. The group proposed excluding rice and wheat from this action, and retaining some surcharge system on imports of beef and citrus products to compensate farmers. During the recent bilateral deliberations, however, the group remained silent. The economic advisers showed little enthusiasm for pursuing agricultural liberalization, particularly decontrol of beef (Table 1).

Theoretically, this group supports a general liberalization, in which case Australia, with its lower-priced grass-fed cattle, would presumably be the main beneficiary. However, Japan's huge trade imbalance with the United States forces trade negotiators to bend to American demands. Furthermore, the recommendations have been repeated by the government and the farm bloc. One farmers' group, Zenchu (The Central Union of Agricultural Cooperatives), found the "liberalization with some financial support" conclusion unacceptable, warning that it could not trust a government pledge of continued financial support at a time when the budget is so tight.

Historical Background

Serious bilateral trade frictions first emerged in the early '70s over the question of Japan's textile exports. Soon the flow of Japanese steel, televisions and automobiles was reined in by "voluntary restraint" agreements, and Japanese manufacturers invested in American subsidiaries or entered into joint venture operations with U.S. companies. These moves have substantially silenced critics of Japanese export aggression.

U.S. exporters, for their part, pushed vigorously in the late '70s for access to Japan's markets for cars, chemical products and semiconductors. The focus then shifted to the service industries -- banking, securities, telecommunications and computer software -- the latest market-access issues.

Increases in the U.S. beef and citrus quotas became a priority in the 1977 Tokyo Round of trade negotiations. It should be noted now that there are no other American commodities so disputed in the context of market liberalization. Not even the complete liberalization of Japan's agricultural market will correct the huge bilateral trade imbalance. The United States would, at the most, stand to gain an annual $800 million, assuming American beef was more competitive than Australia's and that the United States could compete with Brazil for orange juice exports. In short, beef and citrus have become a political dead-end, illustrating the limits of the Japanese market.

Lightning Rod

In assessing the results of the new package, Minoru Tsukada, deputy director-general of the Ministry of Agriculture, Forestry and Fisheries (MAFF), told JEI: "Both Japan and the United States could have handled the negotiations more smoothly. We launched those discussions with extreme dogmatism on both sides. The U.S. side demanded 'immediate, complete liberalization'. The Japanese flatly insisted on 'no quota increase', not to mention liberalization. We spent almost two years talking that way. It was only at the final stage that the United States recognized the futility of the liberalization demand, and modified its strategy to a more pragmatic approach." Having checked an unofficial network of farmers in both countries, Mr. Tsukada had good information that what U.S. orange growers really wanted from Japan was an increase in the quota.

"Beef, on the other hand," said Mr. Tsukada, "was extremely political. We recognized that in the United States there are at least as many special interest groups as states, and they are awfully powerful. We had the same problem. Both sides were under intense domestic pressures."

Difference of opinion within the American negotiating team were criticized by some Japanese government officials. A MAFF official complained: "We were exhausted trying to follow U.S. negotiators who were competing with each other to see who could be toughest in dealing with Japan. That kind of internal rivalry makes bilateral talks unnecessarily complicated."

Even so, some trade representatives take another view. Yamagata Prefecture Dietman Koichi Kato, a key member of the LDP agricultural policy group, told JEI in an interview that such "tension" is necessary in international political dynamics. "In the context of the current Japan-U.S. relationship," Kato commented, "with a huge trade imbalance and a delicate political climate, the agricultural talks shouldn't be settled too smoothly. The talks were a kind of 'lightning rod' to divert the dangerous voltage of resentment." It would seem that after decades of escalating pressure, which the United States has initiated and intensified, the relationship now is balanced at a delicate point midway between serious friction and relative stability.

It is plausible that agricultural trade issues work as a shock absorber for a bilateral relationship plagued by the imbalances of both trade flows and defense. One problem with this theory in practice, however, is that beef and oranges clearly have different market destinies. Although generally considered a single issue, it is becoming clear that they ought to be differentiated.

There is little evidence that liberalization of orange imports will affect Japan's mikan growers as long as they continue to control their output (Table 2). A MAFF official who specializes in agricultural trade told JEI that the quota on oranges will be lifted several years after the current agreement expires in March 1988. Mr. Kato also indirectly confirmed this possibility. He noted that as the volume of foreign oranges allowed into Japan has increased, importers can no longer tack on the huge profit margins they once did. "The value of an orange import license has definitely diminished," he added.

But MAFF officials underscore the importance of quotas on beef. Mr. Tsukada said that beef quota system will continue "for the foreseeable future." The need to retain beef import restrictions goes beyond protecting the cattle raisers. Agricultural economists point to the virtues of fertilizing the land by raising cattle, and warn that any cutbacks in cattle production risk sacrificing the nation's self-sufficiency. Moreover, Japan wants to avoid a sudden change in food consumption patterns. If dropping the beef import quota resulted in a rapid increase of beef consumption in Japan, rice, pork, chicken and fish consumption would fall drastically, causing serious problems for these agricultural areas. "In any case," Mr. Tsukada said, "the yearly beef quota increases will continue at least at the same levels as in the past within the framework of the long-term agricultural balance sheet."

Prospects for the Next Round

Shortly after the U.S.-Japan negotiations, two other meetings on agricultural trade were held: Australian Minister of Primary Industry John Kerin arrived in Tokyo to request an increase in Japan's general beef quota; and the International Federation of Agricultural Producers (IFAP) met in New Delhi. Participants at both conferences were affected to some extent by the outcome of the earlier talks (see JEI Report No. 20B, May 18, 1984). The Australians, who are concerned that Japan's agreement with the United States sacrifices Australia's share of the beef quota, would like to see the ceiling lifted. But the Japanese maintain that beef imports can only be expanded as demand rises.

In the IFAP discussions in New Delhi, the Japanese farmers' position was elaborated by Iwao Yamaguchi, senior executive director of Zenchu. The Zenchu document warned that food security required domestic production capabilities, and opposed imports except to make up shortfalls in domestic production. In an interview with JEI, Mr. Yamaguchi explained the organization's goals: "First, we would like to see the GATT code revised so that agricultural trade is recognized as a special area. We would like to trade on a multilateral basis -- that is, to import an amount which complements the shortage of domestic supply -- from those countries offering the most competitive price and quality. With beef, for example, we would offer about a 9,000-ton import increase per year and invite tenders from any exporting countries."

The agriculture official, who observed that Australia and New Zealand were quite critical of the U.S.-Japan trade agreement, conceded that Japan is running a huge surplus in trade with the United States and a substantial deficit with Australia, but he contends that observers in Japan who have followed the issue feel that the trade talks should have been carried out with more multilateral consideration.

Zenchu's proposal that the GATT code be revised will not find a welcome reception, especially since the United States is vehemently opposed. Some cynics have commented that the proposal was formulated to deflect the anger of the farmers, who oppose the agreement and who have called for the resignation of top Zenchu officials.

A more reasonable multilateral farm trade approach could be discussed in the course of the new round of multilateral trade talks proposed by Japan at the last Organization for Economic Cooperation and Development (OECD) meeting in Paris. Earlier, agricultural issues were discussed without much attention to multilateral interests. Now, however, due to the sensitivity of the issue, some way to diversify the negotiations ought to be considered.

For further information, contact Hiroshi Ando.

The views expressed in this report are those of the author and do not necessarily represent those of the Japan Economic Institute.

* * * * * *

Table 1: Japan's Beef Imports

(in metric tons)

	1979	1980	1981	1982	1983
United States	23,534	22,437	26,464	31,570	37,715
Canada	817	1,539	1,957	69	2,606
Australia	100,430	92,935	86,952	85,998	90,952
New Zealand	3,432	3,924	6,143	3,641	7,724
Total Imports	129,670	121,889	122,432	122,079	137,428
Total Quota*	134,500	134,800	126,800	135,000	141,000
General Quota	116,500	119,000	111,000	119,200	125,200
Special Quota	18,000	15,800	15,800	15,800	15,800

*Although Japan's beef quotas are announced on a fiscal year basis, the quotas are actually allocated for import on a calendar year basis. For example, the quota for the first half of FY 1983 (April 1983-September 1983) was allotted for import during the July-December 1983 period, while the quota for the second half of FY 1983 (October 1983-March 1984) was allotted for import over the January-June 1984 period.

Source: Ministry of Finance, Japan Exports and Imports: Commodity by Country

Table 2: Japan's Orange Imports

(in metric tons)

	1979	1980	1981	1982	1983
United States	53,414	71,149	75,249	82,284	89,048
Total Imports	54,075	71,403	75,471	82,421	89,191
Total Quota*	45,000	68,000	72,500	77,000	82,000
Seasonal Quota (June-August)	22,500	35,000	38,500	42,000	45,500

*On a fiscal year basis. Does not include the special import quota for Okinawa.

Source: Ministry of Finance, Japan Exports and Imports: Commodity by Country

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REPORT

NO. 22B
June 8, 1984

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Bilateral Yen-Dollar Report Issued

The report of the Joint Japan-U.S. Ad Hoc Group on Yen/Dollar Exchange Rate, Financial and Capital Market Issues has finally been released. While the document technically surveys yen internationalization and foreign access to Japanese capital markets, its importance lies in the concessions made by Japan in the process of putting the report together. While the negotiations had earlier provoked an outburst from Treasury Secretary Donald Regan, he hailed the final product as a great success. "I am pleased to say that the report being released today contains major new commitments and policy measures by Japan that we believe will, when fully implemented, redress many of the problems which have existed," he told the press.

The Iranians are feeling the effects of the Iraqi attacks and a decision by Japanese shipping companies to ban Japanese flag ships or Japanese crews from sailing to northern Gulf ports. While chartered foreign flag ships are now being employed by Japanese companies to make the risky run, Iranian crude oil exports have plummeted to an estimated 750,000 barrels a day compared with an early April average of 1.8 million barrels per day. Iran has offered discounts of $2.50 a barrel to compensate for skyrocketing insurance costs, but Japanese trading companies say that this not enough and are seeking cuts of $3.00 and more. Japanese energy officials are remaining calm and claiming that Japan is not in any peril from the tanker attacks. According to the Ministry of International Trade and Industry (MITI), as long as southern Persian Gulf ports remain open, oil imports will not be affected. Even with a 120-day stockpile of oil, MITI has initiated a study of emergency oil supply measures in coordination with the United States and the International Energy Agency. If the situation worsens, Japan may be encouraged to take an increasingly active role, although Foreign Minister Abe insists that Japan will not get involved in arbitration activities.

Jon Choy

The Energy Situation in Japan

The Iran-Iraq war has again focused attention on Japan's near-total dependence on imported energy sources, and Japanese officials have taken a hard look at their current situation with contingency plans in mind. While on the one hand the Japanese economy's energy appetite has increased with the growing recovery, the Ministry of International Trade and Industry (MITI) continues to moderate its outlook for future energy demand.

Japan's crude oil imports since 1980 are summarized in the following table and it is clear that the crude oil efficiency of the Japanese economy has been continuously improving. If Japan's gross national product (GNP) is divided by the total amount of crude imported, a rough measure of energy efficiency can be derived. In 1980, every barrel of oil generated Y117,428 ($511 at current exchange rates) of GNP. In 1983, the figure stood at Y160,757 ($699) for every barrel, a 37 percent increase. These calculations are likely to be favorably skewed because nuclear power has contributed an increasing share of Japan's total energy supply over the last few years. Nuclear power accounted for just under 20 percent of total electricity generated in 1982, up from 16 percent in 1980 and easily surpassing the 1982 hydroelectric component. As a result of this and the development of other alternative energy sources, oil's share of the total energy supply declined from 66 percent in 1980 to 62 percent in 1982.

MITI figures for fiscal year 1983 (April 1, 1983-March 31, 1984) show that imports of crude rose 2.6 percent to just over 1,340 million barrels -- the first increase in four years. Driven by a hot summer, a cold winter and a strengthening recovery, fuel oil production rose 0.9 percent to 1,127 million barrels and fuel oil inventories dropped 11.6 percent. Most of the increase was supplied by Middle Eastern countries whose exports to Japan rose 3.8 percent.

Japan's Imports of Crude Oil by Sources, 1980-1984

(in 1,000 of barrels, share of total in parentheses)

	1980	1981	1982	1983*	1984			
					Jan.*	Feb.*	Mar.*	Apr.*
Total	1,615,479	1,448,203	1,305,104	1,307,018	114,056	122,711	134,336	118,267
Middle East	1,181,957 (73.2)	999,619 (69.0)	953,187 (70.6)	921,875 (70.5)	82,022 (71.9)	88,481 (72.1)	94,947 (70.7)	83,086 (70.3)
Saudi Arabia	509,503 (31.5)	497,891 (34.4)	478,009 (35.4)	367,644 (28.1)	33,092 (29.0)	34,966 (28.5)	35,522 (26.4)	28,803 (24.4)
Iran	NA	49,993 (3.5)	83,902 (6.2)	144,230 (11.0)	12,328 (10.8)	10,838 (8.8)	14,604 (10.9)	10,752 (9.1)
Iraq	119,819 (7.4)	21,789 (1.5)	24,172 (1.8)	3,453 (0.3)	NA	1,786 (1.5)	NA	6,268 (5.3)
S.E & F.E. Asia	324,123 (20.1)	290,315 (20.0)	264,306 (19.6)	237,246 (18.2)	21,266 (18.6)	23,676 (19.3)	26,503 (19.7)	22,061 (18.7)
Indonesia	231,441 (14.3)	228,906 (15.8)	205,758 (15.2)	183,454 (14.0)	15,719 (13.8)	18,204 (14.8)	19,577 (14.6)	16,831 (13.9)
Brunei	51,414 (3.2)	31,658 (2.2)	31,029 (2.3)	30,192 (2.3)	1,956 (1.7)	3,126 (2.5)	2,941 (2.2)	2,051 (1.7)
North & South America	29,186 (1.8)	56,000 (3.9)	50,320 (3.7)	61,057 (4.7)	3,583 (3.1)	5,730 (4.7)	5,284 (3.9)	4,884 (4.1)
Venezuela	13,788 (0.9)	15,417 (1.0)	9,334 (0.7)	7,529 (0.6)	503 (0.4)	528 (0.4)	681 (0.5)	325 (0.3)
Mexico	9,253 (0.6)	25,915 (1.8)	35,627 (2.6)	50,043 (3.8)	3,082 (2.7)	5,202 (4.2)	4,603 (3.4)	4,559 (3.9)
Africa	24,523 (1.5)	34,582 (2.4)	17,115 (1.3)	16,416 (1.3)	717 (0.6)	NA	NA	1,631 (1.4)
Communist Bloc	58,433 (3.6)	66,699 (4.6)	65,057 (4.8)	69,045 (5.3)	6,466 (5.7)	4,824 (3.9)	7,632 (5.7)	6,604 (5.6)
China	57,673 (3.6)	66,007 (4.6)	64,756 (4.8)	68,278 (5.3)	6,466 (5.7)	4,824 (3.9)	7,596 (5.7)	6,604 (5.6)
U.S.S.R.	653 (**)	692 (**)	302 (**)	767 (0.1)	NA	NA	35 (**)	NA

* Partial or preliminary data.
** Less than 0.1 percent.

Sources: Petroleum Association of Japan, "Japanese Oil Statistics Today," and the Ministry of Finance.

MITI has responded to changing oil prices and an evolving economic structure by altering its long-term forecasts for energy demand -- revising its estimates twice in 1983 alone. First, it reduced its forecast to reflect pessimistic growth predictions coupled with abundant supplies; the second time, the target was pushed up, reflecting increased energy efficiency but tighter oil market conditions. In the predictions for FY 1984, the government sees a slight decline of 2.3 percent to just under 1,340 million barrels in imports of crude oil compared with the slight increase in FY 1983. Over the next four years, MITI predicts that crude oil imports will fluctuate mildly and wind up at 1,296 million barrels, an annual average decrease of 0.7 percent. This is in line with consumption predictions of 1,189 million barrels by FY 1988 or an annual average drop of 0.2 percent. Beyond 1988, the ministry see total energy consumption growing slowly to the equivalent of 2,617 million barrels of oil in FY 1990 (an 18.6 percent increase over FY 1982), 3,335 milion barrels in FY 1995 (up 36.6 percent from FY 1982) and finally 3,775 million barrels by the turn of the century (a 54.6 percent rise).

Emergency stockpiles, efficiency improvements and alternative energy projects continue to receive attention. The FY 1984 budget contains Y603.2 billion for energy related measures. The 0.9 percent increase is particularly significant in light of the strict fiscal austerity that permeates the latest spending plan (overall budgeted expenditures will rise only 0.5 percent). In addition to maintaining a 120-day stockpile of crude oil, MITI plans to increase its 25-day stockpile of liquefied petroleum gas to a 45-day capacity by FY 1988. Diversification of supplies will also continue to receive emphasis, especially since MITI predicts tight markets after 1990. New energy demand will be satisfied through alternative energy sources, with nuclear power playing the central role. It is clear that the calm Japanese response to the destabilizing effects of the Iran-Iraq war is a result of positive adjustment policies -- policies that will continue to bear fruit through the next century.

Jon Choy

Diet Session Extended

The current session of the Diet, Japan's parliament, was extended by 77 days to August 8 by a lower house vote on May 24. The decision was necessitated by the number of domestic legislative initiatives still facing the body, measures which will be used in part as a standard for determining whether Prime Minister Yasuhiro Nakasone will be able to retain his office later this year.

The lower house voted its approval after testing the waters for a 90-day extension. Opposition parties protested so vehemently against the longer term that the ruling coalition of the Liberal Democratic Party (LDP) and the New Liberal Club (NLC) compromised with the lower figure. Even so, all the opposition parties except the Democratic Socialists (DSP) boycotted the actual floor vote as a sign of their opposition to coalition policies. With the LDP and NLC maintaining a functional majority in the lower house, opposition parties can do little in the Diet to prevent government-supported measures from being enacted, other than to resort to obstructionist tactics during the sessions.

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REPORT

NO. 23A June 15, 1984

RECENT TRENDS IN U.S. DIRECT INVESTMENT IN JAPAN

Summary

The Japanese attitude toward direct foreign investment has undergone several transformations since the end of World War II. Foreign investors who thought the welcome mat was out have had it rudely yanked from under them the next moment. Official policy has been hostage to the changing needs of the economy as perceived by the government and business community. The demands of rebuilding a war-torn economy and setting infant industries on their feet while maintaining adequate foreign reserves shaped the foreign-exchange control laws -- the gospel for foreign investors. While these strictures were loosened in a series of steps beginning in 1967, and largely abandoned in the new foreign-exchange control law of 1980, direct foreign investment in Japan still lags behind that of other countries. As the Japanese government admits, more must be done to promote this activity if Japan is to continue to prosper in a capital-poor world.

The Role of Foreign Direct Investment

Foreign direct investment can play an important role in the development and growth of an economy not only by supplying a scarce resource -- capital -- but also by providing needed technology and labor skills. In addition, the establishment of economic ties can generate momentum leading to political cooperation as well as to broader economic interaction. But the investment is not without risks for the host country. While there are unambiguous gains in terms of employment, the benefits of increased output, technology transfer and labor training may escape the country's grasp if the investment is not properly structured or operated. For a developing nation, foreign investment also poses problems in terms of monetary policy as repatriation of profits could loom large in its balance-of-payments and exchange-rate situation. Governments face the problem of how to balance the demands of foreign investors with national economic priorities in order to create conditions where each party's interests are protected.

Immediately after the war, foreign investment was welcomed but tightly controlled in Japan because the government placed a premium on defending the value of the yen and maintaining a healthy balance of payments. The need to allow repatriation of profits as an inducement for foreign investors clashed with the importance of foreign-exchange reserves for defending the value of the yen under the Bretton Woods system of fixed exchange rates. Thus, instead of supplying capital for reconstruction, foreign investment served Japan as a source of critical technology and managerial skills. This preference is borne out by the data. In 1951, 87.4 percent of all foreign investment in stocks went to companies that agreed to allow foreign participation in management. (This figure dropped to 9.3 percent by 1970.) The number of cases of technology licensing jumped from 27 in 1949-50 to 110 in 1951. Yet foreign investors were still held at arms length by the Japanese, who feared monetary headaches and unruly foreign-controlled companies if investment laws were liberalized.

As exchange problems eased and Japanese industry began to make forays into world markets, the positive role of foreign investment began to shrink even more drastically. From the viewpoint of government officials, it was a channel through which elephant-sized foreign companies could enter the Japanese market and trample pygmy domestic competitors. In retrospect, such fears were excessive even though this was a period of overseas expansion by American corporations. Foreign capital was seen as a threat if it meant giving overseas interests a significant position in domestic markets. On the other hand, if the foreign investor was willing to help raise an infant industry up to international competitive standards, the investment application stood a good chance of timely processing. Despite successive liberalizations of Japan's foreign-exchange and investment laws, inward direct investment carried negative connotations up until the start of this decade.

Necessity may have dictated the present admiration for overseas investors expressed by the Japanese. As the cost of research and development in high technology fields has skyrocketed, and congestion along the Tokyo-Osaka corridor has grown unbearable, foreign investment promotion in rural areas is emerging as a possible cure for these problems. While the flow of technology into and out of Japan is more balanced than before, Japanese firms are now confident enough to pursue cooperative research and cross-licensing with foreign rivals and willing to share equally in the benefits. Prefectural governors court foreign investors with an ardor equal to any state governor for identical reasons: jobs. The importance of this alternative will become increasingly valuable as the Japanese economy matures.

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The Flips and Flops of Foreign Direct Investment Laws

In 1949, the cabinet issued Japan's first postwar directive on foreign direct investment. Cabinet Order No. 51 took an extremely cautious attitude by failing to guarantee repatriation rights or the sanctity of foreign investments. In addition, many actions required the approval of the appropriate minister -- a clumsy process.

Realizing the weakness of this statute, the government modified it with new legislation that offered security guarantees to investors and broadened the bill's domain. The Foreign Investment Law enacted in May 1950 remains the basic vehicle for policy. Reflecting the extreme conditions facing the economy, the law established a system of prohibitions on external transactions with exceptions or relaxations possible only through cabinet actions. While the law did guarantee the right to the fruits of investment and provided safeguards against expropriation, there were numerous catches. Time-consuming ministerial approval was still required and the scope of activities requiring approval was widened. The real kicker was the limitations on how and when a foreign investor could move his profits out of Japan. Repatriation had to be spread out over a number of years in most cases. Moreover, the yen-denominated profits were usually not convertible into other currencies. Many companies did not see holding yen as a desirable condition and stayed out of Japan. Certain companies with long-standing Japanese operations received different treatment as their profits were convertible, though the timetable restrictions still applied.

Throughout the 1950s and early 1960s, the value of foreign direct investments grew steadily. Japan's membership in the International Monetary Fund (IMF) in 1952 and accession to the General Agreement on Tariffs and Trade (GATT) in 1955 led to some slight relaxations in administering the foreign-exchange and trade laws. In 1960, the government announced a plan to begin liberalizing import restrictions which increased the attractiveness of Japanese industry to foreigners.

Until 1964, the law was applied in a strict but not obstructionist manner, and many foreign companies, with Americans in the fore, decided that the long-term potential of the Japanese market justified the risks of a direct presence. In 1964, however, Japan was accepted as a member of the Organization for Economic Cooperation and Development (OECD) and was forced to make changes in its foreign-exchange policy that effectively removed bars to the yen's convertibility. The Japanese bureaucracy took upon itself the task of protecting what it perceived as a weak, fledgling economy from the onslaught of behemoth multinational corporations as they sought entry into attractive Japanese markets. The once warmly welcomed foreign investors suddenly found the Japanese giving them the cold shoulder -- fewer investment applications were approved and terms for technology licensing agreements became even more pro-Japanese. Between 1963 and 1964, the value of stock purchased by foreigners plummeted from $185 million to $85 million and the number of technology licensing agreements fell to 500 from 564. These figures fell again in 1965 before slowly inching up, though stock purchases did not regain their 1963 level even as late as 1967. The laws that required ministry approval for nearly all financial transactions became a suffocating tangle of bureaucratic red tape choking off many potential investors. Holders of key technologies could still get a foot in the door (such as Texas Instruments), but such cases were few and far between.

While the Japanese were very proud of their OECD status, they were not ready to face up to the responsibilities in terms of liberalizing their financial regulations to conform with the organization's guidelines. In the words of a 1967 Bank of Tokyo manual on foreign-exchange practices, "The controls on payments related to investments and loans abroad and the like have not yet been liberalized to a larger extent than those on current invisible payments. The number of items (18 capital items), in which Japan now makes reservations in connections with the Liberalization Codes of the OECD, is still large compared with those of other members of the Organization." This situation persisted throughout the 1960s and 1970s, though in decreasing intensity as several waves of liberalization were carried out.

The re-opening of Japan's market to foreign direct investment that began in 1967 and lasted until 1980 was a slow and difficult process as Japan tried to transform its foreign investment laws from "basically restricted" to "basically free." The effect of the four liberalizations (July 1967, March 1969, September 1970 and August 1971) was to widen the conditions providing automatic validation for stock purchases and joint venture formation. The new measures also freed technology licensing agreements from restrictions relatively early in 1968. Yet for all the liberalization rhetoric, foreigners still felt there were barriers in their paths as they tried to enter the market. (The Japanese tacitly admitted as much by using the previous quotation in their foreign investment manuals as late as 1978.) Problems of transparency and information were often cited by investors as reasons for withdrawing applications. Certain companies and sectors were closed, and caps were placed on the degree of foreign ownership. Finally, repatriation of profits still required permission and was still regulated in terms of value and timing.

The 1980s got off to a good start when the Japanese revised the Foreign Exchange and Foreign Trade Control Law to make all transactions "free in principle." Of course, numerous restrictions were permissible under the new law, but the last real legal hurdle had fallen. Under the new law, the Finance Minister retains wide discretionary powers to regulate capital transactions if national interests are threatened. The onerous validation requirements have been eliminated (and replaced with a prior notification procedure) along with most restrictions on investment and repatriation of profits. Trade in services has also been freed, a point that will be increasingly important as the Japanese economy matures. Therefore, while Japan has liberalized its foreign investment laws significantly since 1950, the attitude that controls must exist and foreign direct investment must be monitored persists in the government, posing a psychological hurdle that is not quickly overcome.

Investment Promotion

In the forefront of the Japanese effort to attract foreign investors are local governments in rural areas. Because of declining employment opportunities and an end to the flow from rural to urban areas, local officials find themselves faced with a steadily worsening unemployment problem. In an era of austerity, the public works fountain dries up, stimulating other employment measures. The idea of generating jobs with foreign money is quite unusual, especially coming from local governments, and a great deal of effort has been spent on public relations to get the word out that foreign investors are welcome. Industrial parks and infrastructure improvements have been established and local tax laws amended to create incentives for investors. Without the blessing of central authorities, however, few foreign companies have been willing to accept the local offers.

The central government has finally augmented local efforts by providing support services and introducing the "Technopolis" program. The Industrial Guidance Division of the Ministry of International Trade and Industry (MITI) has begun to provide foreign investors with information on sites and facilities that meet their investment needs. While it is difficult to convince foreigners that MITI is welcoming foreigners into Japanese markets, today the computerized English-language service can check over 2,200 sites for investment compatibility and tax incentives. Information is only the first level of assistance the central government offers. The Japan External Trade Organization (JETRO) now provides potential investors with consulting and translation services at its overseas offices (JETRO previously focused on promoting Japanese exports). A new office of investment promotion has been established as part of Japan's most recent market liberalization moves, making it even clearer that the government is serious about attracting foreign investors. The Japan Development Bank (JDB) has also announced that it will now provide loans to foreign companies wishing to start new enterprises in Japan.

Perhaps the most widely promoted new central government investment promotion plan is the "Technopolis" program. Targeting investment by domestic and foreign high technology companies, the government has approved nine regional development plans that coordinate infrastructure development with tax and financial incentives (five other areas are pending approval). MITI hopes to improve the performance of small- and medium-sized firms as well as disperse new industries more evenly around the country. The project involves local authorities who must meet MITI guidelines in terms of location, labor resources, educational facilities and infrastructure. In exchange, MITI provides information and consulting services as well as financial help through the JDB and Hokkaido-Tohoku Development Corp. Response to the program has been almost too effusive. It is unclear whether or not Japan can support dozens of top-notch biotechnology or electronics firms -- the education system may not be able to supply the skilled labor. Whether so many firms can establish themselves in Japan's market is also a nagging question given the tightly linked nature of the distribution and marketing systems. Enthusiasm remains high, however, and most of the new ventures should make a good go of things.

An Investment Comparison: 1982 vs 1983

Aggregate inward data exist for fiscal years 1982 and 1983 showing a significant increase both in value and in number of cases. In FY 1982 there were 1,074 foreign investments with a total value of $749 million (the figures include stock purchases, bond issues, technology licensing contracts and portfolio investments). In FY 1983 the number rose 2.6 times to 2,363 cases while the total value of investments went up 8.5 percent to $813 million, a new record. There was also an upsurge of 20 percent in the number of foreign affiliates establishing factories on plots 1,000 square meters or larger in FY

1983; over one-third of the new plants will produce high technology products. According to a MITI survey, many medium-sized and smaller firms have taken the plunge into the Japanese market, a clear signal of the improved investment climate.

Focusing on major purchases of stock in calendar years 1982 and 1983, some interesting trends are evident. In overall terms there were 476 cases of major (greater than Y100,000 or $435 at current exchange rates) stock purchases adding up to Y113,821 million ($495 million) in 1982. These figures rose to 639 cases and Y119,424 million ($519 million) in 1983. Sorting the purchases by type (participation in new enterprises, participation in existing enterprises and expanded participation in existing enterprises), there was only a slight increase in the value of new ventures (3.8 percent or $10 million), but a large increase in the number of new ventures (321 versus 241). Investment in existing firms plummeted in value from Y45 billion ($197 million) to just under Y10 billion ($42 million), but rose in frequency to 185 from 129, translating into an average decrease in value per investment from Y351 million ($1.5 million) to Y53 million ($229,000). The decline in this category was balanced by a large rise in both the value of expanded existing holdings of Y39 billion ($169 million) and the frequency (133, up from 1982's 106). Individual investors play a larger role than might be expected, accounting for almost 20 percent of the number of all major stock purchases and 1.6 percent of the total value. Investments by existing foreign subsidiaries also play an important role, showing that foreign companies in Japan are committed to remaining in the Japanese market and are aggressively pursuing an expanded presence.

Country data are presented in Tables 1 and 2. It is obvious that the United States continues to be the major source of foreign investment in Japan with a 30 percent-plus share. Behind the United States, Hong Kong, the United Kingdom and West Germany are all closely grouped, with shares ranging from 3 to 8 percent. Most interesting is the fact that investment from Middle Eastern countries is so low, just 1.3 percent of the total and less than 0.1 percent of the value of all major purchases in 1982, and a mere 0.9 percent and 0.2 percent respectively in 1983. This is one group of countries where Japanese investment promotion efforts could pay off handsomely.

The United States leads in each of the three types of stock purchases. Tables 1 and 2 show the major European countries are less adventurous than their American competitors, preferring investments in existing Japanese enterprises or an expansion of their present holdings. The reverse appears to be true for Asian countries, probably because of their recent appearance as foreign investors.

Data on investment by type of business show a clustering around the export/import field as well as a growing emphasis on high technology. Machine tools and electronic equipment are popular with an increasing number of computer-related firms entering Japan. Much of the investment in the chemical sector is in pharmaceutical production or marketing, as offshore firms try to crack the lucrative Japanese market. Closer analysis of foreign entries into the more mundane industries such as food products or apparel show a strategy based on supplying products that are of high quality or distinctly foreign in character. Finally, investments in the service sector provide consulting, management, marketing or design operations to a wide range of businesses, presumably putting them in head-to-head competition with the established Japanese trading companies.

Several industries are notable for their lack of appeal to foreigners: construction, glass and stone manufacturing, transportation, warehousing and wholesaling. For the most part these are industries where foreigners do not provide significantly superior products. Moreover, they are slow growing markets with plenty of entrenched domestic competition. While market liberalization will increase opportunities in some fields, such as tobacco wholesaling and distribution, foreign investors will find it difficult to establish new firms in many industries because of business practices that emphasize long-term relations and loyalty between buyers and sellers. Joint ventures and investment in existing companies offer ways around this problem and the method may gain popularity as the investment climate becomes more hospitable.

U.S. Patterns of Investment

The structure and purpose of American investments point to a pattern of investment strategies based upon the field of entry. In general, high technology firms providing established goods or services opt for the creation of a majority (often wholly) owned subsidiary to produce for or service the Japanese market in the near-term and the Asian market in the future. This group includes Xidex Corp. (a maker of floppy disks and computer peripherals), Corning Glass Works, Life Technologies Inc. (tissue culture apparatus) and Inductotherm Industries Inc. (a producer of electric induction furnaces). High technology firms involved in costly research and development programs seek Japanese partners for joint ventures, cross licensing, production and marketing agreements. International Business Machines Corp. (IBM), Merck Pharmaceutical and Remote Technology Corp. are typical of this group.

Vendors of unique products usually set up their own marketing and distribution subsidiary. Apple Computer Inc., Digital Research Inc., CPT Corp., American Components Inc. and others have taken this go-it-alone route. Some smaller firms also chose this risky path, among them Esprit de Corp. (an apparel maker) and some individual businessmen -- J.V. Elliot, operator of a livestock feed business, and Lou Dapas, a vendor of gas masks and other industrial safety equipment. Joint ventures are also a popular alternative for unusual products, particularly electric and electronic components and photographic equipment.

Buying into established firms in the same or related field is a desirable strategy for many American firms seeking a toehold in Japan. Some problems exist with this method, however, since a Japanese firm that is receptive to foreign offers is often in trouble. Merck Pharmaceutical's buyout of foundering Banyu Pharmaceutical is the most publicized example. Smaller Japanese firms are receptive to this strategy because in a fiercely competitive market, tie-ups of this nature provide access to American products. At the same time, they offer Americans well-established Japanese contacts. This path also serves giants like General Motors Corp. (GM), which is seeking a solution in manufacturing competitively priced subcompact cars. GM's links with Isuzu Motors, Ltd. and Suzuki Motors, Ltd. form the basis of a good relationship in the fiercely competitive auto industry.

Joint ventures, which were once the preferred mode of investment, have lost much of their sheen in recent years. Many American partners are either selling their shares or buying out their Japanese partners in an effort to put things back on track. Much of the problem seems to stem from management incompatibility. The Japanese system of decision-making by consensus is famously time consuming and American companies have found it very frustrating. On the other hand, Japanese companies are usually cautious in their dealings with foreign partners because they do not completely trust the alliance and thus never allow a solid relationship to develop -- a catch-22 situation. Sobered by their peers' experiences, many companies on both sides of the Pacific are negotiating joint ventures with more realistic expectations -- a good sign for future success.

The services industry is in a state of rapid development, favoring foreign firms which have an edge in experience. Wholly owned subsidiaries or majority owned ventures seem to be the most popular vehicles. The wholly owned route is favored by many software firms or computer consulting services, including Microsoft Inc., General Electric Co. and Magicsoft Corp. Vendors of management services often establish a joint venture with a large Japanese company linked to numerous business partners. Financial service companies are planting seeds in the rich Japanese market and as liberalization of this market proceeds over the coming years, ample harvests can be expected.

While companies anxious to do business in Japan constitute the majority of international traders, portfolio investors and pure investors are also numerous. With the meteoric rise of the Tokyo Dow Jones average powered by very strong gains in corporate profits, foreign individual and institutional investors are looking more and more often at Japan to diversify their holdings and increase their return. This movement has not escaped the attention of American financial institutions which also have an eye on Japanese pension funds and are seeking government permission to engage in trust operations in Japan -- a sore point between the two countries. Foreign bond issues by Japanese companies are becoming increasingly popular, and an explosion in the Euroyen market is expected with the liberalization of regulations allowing over 100 Japanese companies and institutions to issue bonds on international markets.

Therefore, a pattern of building upon company strengths or seeking partners to shore up weak areas seems to emerge from the data on American investment in Japan. What is encouraging is the fact that many U.S. firms are going into Japan with their own subsidiary and challenging the Japanese head-on. While this speaks well of American entrepreneurial spirit, it also indicates the change in Japan's attitudes toward foreign investors.

The Outlook for 1984 and Beyond

Investment data from the Ministry of Finance for the first two months of 1984 point to continued strong interest by foreign investors. In January there were 138 cases reported with a value of $27 million; February hit a record 256 with a total value of $26 million. The average for 1984 per month is well above 1983's 157 and far above 1982's average of 80. With the stock market booming and the economy picking up, Japanese investments will become increasingly attractive and 1984 may well prove to be another record year.

Subsidiary diversification and establishment of more wholly owned subsidiaries is likely to continue with renewed vigor. New trends are in the making, given financial market liberalization,the telecommunications deregulation and the Technopolis program. High technology companies, including biotechnology specialists, software developers and advanced materials producers, will continue to receive a warm reception as Japan restructures its economy. The rapidly expanding services industry should also prove to be fertile ground for American companies. The process of diversification by particular Japanese industries also offers opportunities for cooperation. The petrochemical industry's moves into biotechnology and specialty chemicals offer many U.S. firms potential partners for joint R&D ventures. The same is true for other industries facing stagnant markets or stiff foreign competition: steel, textiles, etc. Many prosperous Japanese firms are also moving into new areas and may seek foreign partners for expertise and readily available products.

Successful investment in Japan is still not an easy task, however. The competition for labor and markets is very severe. While few legal barriers remain, many bureaucratic and cultural restrictions exist. Japanese companies are willing to put up with foreign competitors in their own market; they are probably unhappy that the government is now promoting such competition. The perception that the Japanese economy somehow needs protection from foreign invaders is still strong within the lower levels of the bureaucracy. As foreign firms in Japan prove their loyalty and commitment to Japanese customers, this attitude may begin to abate. The process, however, will be long and trying.

For further information contact Jon Choy.

The views expressed in this report are those of the author and do not necessarily represent those of the Japan Economic Institute.

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Table 1: Major Direct Foreign Investments in Japan by Country and Category, 1982*

(in millions of yen; share of total in parentheses)

Investor	Total		New Firms		Existing Firms		Expanded Holdings	
	Value	Cases	Value	Cases	Value	Cases	Value	Cases
United States	Y61,939.5 (54.4%)	176 (37.0%)	Y56,640.4 (93.0%)	93 (38.6%)	Y1,236.8 (2.7%)	42 (32.6%)	Y4,062.4 (53.8%)	41 (38.7%)
Canada, Central & South America	929.1 (0.8)	21 (4.4)	359.5 (0.6)	11 (4.6)	40.5 (0.1)	4 (3.1)	529.1 (7.0)	6 (5.7)
United Kingdom	7,297.1 (6.4)	37 (7.8)	819.3 (1.3)	20 (8.3)	6,140.0 (13.5)	10 (7.8)	337.7 (4.5)	7 (6.6)
West Germany	900.5 (0.8)	32 (6.7)	268.5 (0.4)	20 (8.3)	549.9 (1.2)	6 (4.7)	82.1 (1.1)	6 (5.7)
France	1,090.6 (1.0)	23 (4.8)	92.0 (0.2)	9 (3.7)	812.7 (1.8)	6 (4.7)	185.8 (2.5)	8 (7.5)
Other Europe	2,823.1 (2.5)	80 (16.8)	1,178.5 (1.9)	39 (16.2)	422.5 (0.9)	24 (18.6)	1,222.1 (16.2)	17 (16.0)
Hong Kong	1,748.8 (1.5)	36 (7.6)	320.9 (0.5)	11 (4.6)	922.2 (2.0)	17 (13.2)	505.8 (6.7)	8 (7.5)
Taiwan	829.6 (0.7)	24 (5.0)	671.0 (1.1)	11 (4.6)	98.7 (0.2)	8 (6.2)	59.9 (0.8)	5 (4.7)
Korea	12.0 (**)	1 (0.2)	12.0 (**)	1.0 (0.4)	0.0	0	0.0	0
Southeast Asia	445.7 (0.4)	14 (2.9)	21.2 (**)	8 (3.3)	50.5 (0.1)	4 (3.1)	374.0 (5.0)	2 (1.9)
Other Asia	25,722.4 (22.6)	23 (4.8)	517.3 (0.8)	13 (5.4)	25,022.1 (55.2)	6 (4.7)	183.0 (2.4)	4 (3.8)
Africa	46.7 (**)	3 (0.6)	0.6 (**)	1 (0.4)	41.4 (0.1)	1 (0.8)	4.7 (0.1)	1 (0.9)
Middle East	36.0 (**)	6 (1.3)	31.0 (0.1)	4 (1.7)	5.0 (**)	1 (0.8)	** (**)	1 (0.9)
Total	113,821.0	476	60,932.1	241	45,342.4	129	7,546.5	106
Of Which:								
Individuals	1,130.9 (1.0)	84 (17.6)	786.7 (1.3)	39 (16.2)	218.3 (0.5)	33 (25.6)	125.9 (1.7)	12 (11.3)
Subsidiaries	47,462.9 (41.7)	34 (7.1)	43,468.1 (71.3)	17 (7.1)	189.2 (0.4)	5 (3.9)	3,805.5 (50.4)	12 (11.3)

* Stock purchases with a value greater than Y100,000 only.

** Less than 0.1

Source: Ministry of Finance, International Finance Bureau, Foreign Capital Division.

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REPORT

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The Summit: Politics "Unavoidable"

The seven-nation London summit ended with few results but lingering political implications. Organized to discuss common solutions to global economic problems, the meeting forced leaders to focus attention on other political problems, and future meetings are likely to concentrate increasingly on such issues.

Among the major events of the tenth annual gathering were statements of democratic values and communiques on terrorism and East-West relations. Much of the language was toned down at the insistence of various participants, but the relative unity was important for the seven nations, whose relations have frequently been strained by economic disputes in recent years.

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against the French franc, 0.3 percent against the Swiss franc, 0.1 percent against the West German mark, and 0.7 percent against the Canadian dollar.

Why? One could be cynical and blame the yen's decline on the yen-dollar working group report issued by the two governments at the end of May. The United States has been pushing for the removal of barriers to Japanese capital markets to make the yen a more international currency (i.e. more desired by non-Japanese portfolio managers), and thereby encouraging it to strengthen. The Japanese have responded that interest rate disparities caused by high U.S. interest rates mean that liberalization of capital markets will only result in a greater outflow of capital, pushing the yen down rather than up. The weakness of the yen in May could be in part the result of some of the liberalization measures that have already been instituted. While that is a possibility, the changes that went into effect in April simply could not have had much of an impact, and no other reforms were implemented in May.

Even without further liberalization, capital flows in and out of Japan rather freely, and the balance-of-payments statistics for April (released at the end of May) underscore that fact. While Japan had a record current-account surplus of $3.5 million in April, net long-term capital outflow was an even larger record $4.4 billion and the trend is likely to have continued in May.

Behind the increased capital outflow, interest rate differentials between the two countries have been widening again. Interest rates in Japan rose a bit, in a range of 0.1-0.4 percentage points for short-term financial instruments, and 0.4 percentage points for the long-term bond index. In contrast, interest rates in the United States rose by 0.4-0.9 percentage points during the month, and Eurodollar rates (LIBOR) were up close to one percentage point. With the differential widening, and forecasts about future interest rate increases in the United States, the weakness of the yen was a natural outcome.

Edward Lincoln

Japan's Progress on ODA Goals

Responding to the complaints of developing countries, Japan's official development assistance (ODA) in 1983 rose a solid 24.4 percent over the previous year, according to preliminary data released by the Ministry of Foreign Affairs. The government disbursed Y893.3 billion ($3.8 billion at Y238=$1) in 1983, placing it third in absolute dollar terms among members of the Organization for Economic Cooperation and Development (OECD). Total assistance in 1983 amounted to a record 0.33 percent of the country's gross national product, though this figure still compares poorly with some other OECD countries. The Foreign Ministry data is summarized in the following table.

Last year's increase ended a two-year decline -- ODA dropped 4 percent in 1981 and 4.7 percent in 1982 -- but still falls short of 1980's 25.3 percent hike. In yen terms, total ODA was up 18.6 percent, with a 2.3 percent dip in bilateral aid (a 17.7 percent rise in bilateral grants offset by a 12.6 percent drop in development lending and capital). The shift in bilateral ODA toward grants and technical assistance might have been prompted by the difficulties facing developing countries because of the recession and high U.S. interest rates. Multilateral assistance grew 94.3 percent (grants were up 12.2 percent and capital subscriptions jumped 146.3 percent). Since 1981, Japan has spent $9.95 billion on aid -- not quite halfway to the target of $21.36 billion by 1985.

Japan's Net ODA Disbursements in 1983*
(in millions of dollars)

	1982	1983	Increase
Bilateral ODA	$2,367	$2,425	2.4%
Grants	805	993	23.4
Capital Assistance	412	535	29.8
Technical Assistance	393	458	16.6
Development Lending and Capital	1,562	1,432	-8.3
Multilateral ODA	656	1,336	103.6
Grants	260	306	17.5
Capital Subscription and Similar Payments	401	1,035	158.2
Concessional Lending	-5	-4	**
Total	3,023	3,761	24.4
Percentage of GNP	0.29	0.33	

* Preliminary data.
** Not calculable.

Source: Ministry of Foreign Affairs.

Contributions of $648 million to the International Development Association (IDA), part of the World Bank, and $300 million to the Asian Development Bank (ADB) constituted much of the large increase in capital subscriptions. (In 1982, Japan made no contribution to IDA, but subscribed $153 million to the ADB.) Multilateral assistance rose to 35.3 percent of total ODA in 1983, up sharply from 1982's 21.7 percent.

According to a Foreign Ministry spokesman, Japan will have to increase its ODA outlays by 31.1 percent in 1984 and 1985 in order to meet the 1981-1985 goal. A major question is how it intends to do that. Foreign Minister Shintaro Abe reaffirmed the government's commitment to this target, but at the same time admitted that it will be very difficult to achieve -- an understatement given the 9.7 percent increase in the FY 1984 budget for ODA.

Jon Choy

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The views expressed in this reports are those of the authors and do not necessarily represent those of the Japan Economic Institute.

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REPORT

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U.S. IMPORTS FROM JAPAN: A REVIEW OF 1983 SALES

Summary

U.S. imports from Japan, which had marked time in 1982, expanded 9.1 percent last year to $41.2 billion -- a fairly modest gain considering the competitive edge the strong dollar gave Japanese manufacturers and the strength of the American recovery. A 20.9 percent drop in arrivals of intermediate goods to $5.4 billion admittedly checked the growth of overall purchases. At the same time, though, imports of automotive products increased a moderate 15.7 percent to $14.9 billion, while consumer goods purchases went up just 5.8 percent to $8.3 billion. Capital goods, in fact, were the only end-use category to show signs of buoyancy, as deliveries climbed 24.8 percent to $11.9 billion.

Import Profiles

Automotive Products - The long slide in sales of American-made cars finally came to an end during 1983. Helped by the rebounding economy, a drop in interest rates, stable gasoline prices and improved consumer confidence, as well as more competitive product offerings, U.S. auto makers chalked up sales of 6,795,302 units, an 18 percent improvement on 1982's dismal performance and the best tally since 1979. For Japanese motor vehicle exporters, though, the market recovery was as much a source of frustration as relief. With U.S.-bound shipments during the April 1983-March 1984 period limited for the third consecutive year to 1,680,000 sedans plus 82,500 station wagons and four-wheel-drive vehicles, arrivals of Japanese-built cars went up a mere 4.6

percent in 1983 to 1,791,164 units. These deliveries allowed dealers to increase sales of Japanese nameplates by just 6.1 percent to 1,911,318 units and supply only 20.8 percent of the expanding American market rather than the 22.6 percent they controlled in 1982.

While the limited availability of Japanese cars in the fast-recovering American market proved to be a bonanza for the Big Three U.S. auto companies, it was a marketing nightmare for the domestic distributors of these vehicles. If stocks were run down one month to support strong demand, sales usually suffered the next month because of inadequate inventories. By front-loading shipments of their FY 1983 allocations, Japanese manufacturers were able to deliver enough cars to their American dealers during the spring selling season to keep sales on the upswing. By summer, though, stock levels that were once unimaginable -- a 22-day to 24-day supply for all Japanese makes and even less for the import leaders -- became the norm.

With the market continuing to gather momentum, sales of individual Japanese nameplates increasingly became a hit-or-miss proposition depending on just how skimpy inventories were. Toyota Motor Corp., alone among the top five Japanese suppliers, managed to post a sales gain in 1983's final quarter, and just it and number-two Nissan Motor Co., Ltd. were able to lift July-December retail deliveries above year-earlier levels. Strong first-half results, though, helped Mazda Motor Corp. and Subaru of America Inc., which is supplied by Fuji Heavy Industries, Ltd., finish 1983 with a higher full-year sales count. Only Honda Motor Co., Ltd., the third-biggest importer, fell short of its 1982 total, but with sales of 50,400 cars from its new Ohio assembly plant, the company actually outgained its rivals.

The cap on Japanese shipments to the United States in an up market had a much-publicized flip side: higher sticker prices and product mixes slanted toward option-loaded economy cars and top-of-the-line models. At the import level, these factors, on top of the rise in deliveries, translated into a 12.3 percent gain in U.S. purchases to $10.3 billion. For Japanese car makers and their American distributors and dealers, they meant fatter profits. While none of the companies breaks out profits on their American operations, a glance at sales by models leaves little doubt that U.S.-generated earnings swelled during the first three years of export restraints. Just between 1982 and last year, for example, Toyota's sales of its high-end Celica, Supra, Camry and Cressida models expanded from 35.3 percent of the top import seller's total to 42.7 percent, while Nissan's retail deliveries of the top-of-the-line Maxima and ZX went up from 23.7 percent to 28.2 percent.

Big margins on their U.S. car sales not only inflated corporate profits but also allowed Japan's motor vehicle builders to continue the expensive campaign for sales in the expanding American compact pickup truck market. The Japanese industry had virtually monopolized this market until late 1981-early 1982, when General Motors Corp., Ford Motor Co. and Chrysler Corp. in quick succession introduced the first domestically designed and manufactured small pickups. The marketing battle was joined. To keep U.S.-made compact trucks with their bigger passenger and cargo compartments, better fuel economy and competitive prices from walking off with an ever-increasing share of the

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market, Japanese manufacturers and their American importing units pared profit margins to maintain the base prices on their vehicles below the competition's. They also made previously optional equipment standard, added new models to their lineups, increased advertising budgets and periodically offered below-market financing and other incentives. These aggressive marketing tactics, which had had mixed results in 1982, paid off last year. Although Detroit upped its market share from 59.3 percent to 61.7 percent, each of the five importers of Japanese-built compact trucks posted record sales and combined retail deliveries climbed 34.5 percent to 420,085 vehicles. To support this sales jump, distributors worked down the generally large inventories they had carried into 1983. Imports were also increased 15.5 percent to 420,212 units, pushing purchases up 13.5 percent to $1.7 billion.

Capital Goods - While U.S. business investment took a beating during the 1981-82 recession, computers and a handful of other high-technology capital goods were relatively immune to the downturn. With equipment spending rallying on schedule in 1983's second half, demand for these products accelerated, pulling in more imports from Japan as well as boosting the output of domestic manufacturers. Purchases of Japanese-made data processing equipment and parts alone soared 115 percent last year to $1.8 billion -- fueled, indirect evidence suggests, by peripherals for small computers. Explosive U.S. sales of business-oriented desktop systems provided enormous opportunities for Japanese suppliers of printers since they dominate the market for low-speed dot-matrix units and control a major slice of the smaller market for letter-quality printers. Japanese disk drive manufacturers, which have made inroads in the U.S. market for 5.25-inch floppy drives but have had less success with small rigid drives, also profited from the boom in personal computers. Increased arrivals of small business systems from Japan apparently swelled the import total too, as Japanese vendors tried to capitalize on the hot demand for desktop computers to make headway in a market they have had trouble cracking. Also probably playing some role in 1983's import surge were initial shipments of portable computers from Japan, but a more important factor was the jump in parts deliveries. Ranging from subassemblies for the mainframes made by the two primary U.S. producers of IBM-compatible large systems down to subassemblies for home computers, these parts, like many of the computer and peripheral products coming in from Japan, were bought mainly by American computer companies under original equipment manufacturer (OEM) contracts.

Booming sales of small business systems on top of solid if unspectacular growth in mainframes and minicomputers, telecommunications equipment and industrial and commercial electronic equipment created an enormous demand for semiconductors, particularly dynamic memories and microprocessors. U.S. merchant semiconductor manufacturers, afraid of a repeat of 1982's false recovery, initially hesitated to gear up production. Finally convinced at mid-year that the recovery was real, producers started to bring additional capacity onstream, but lead times continued to stretch out as demand picked up more and more momentum. Even another jump in semiconductor imports from Japan, which went up 56.4 percent to just under $0.9 billion, could not prevent increasingly longer lead times. Supplies of the workhorse 64K RAM were especially tight, although five major U.S. merchant producers as well as six big Japanese makers were shipping in volume, with each group supplying half the market. While this shortage played havoc with end users' production schedules, it turned the 64K chip into a consistently profitable part for both American semiconductor manufacturers and their Japanese rivals.

The 1983 upturn in U.S. business investment took some of the pressure off copier vendors, which had expanded sales during the recession by aggressively cutting prices, but competition remained heated. With four models of its new generation of sophisticated copiers on the market, Xerox Corp. finally had the products and the prices to go head-to-head with Japanese manufacturers in the low-volume and mid-size segments of the business. Japanese makers successfully defended their market share by continuing to expand the range of convenience features available on the inexpensive desktop machines making up the low-volume segment and increasing their lineup of high-performance models in the medium-volume segment. The real marketing coup, though, was Canon Inc.'s January introduction of a personal copier. A big seller from the start, this versatile, low-cost machine apparently accounted for a significant part of the growth in U.S. copier sales last year. It was also the main factor behind the expansion of imports, which jumped 37 percent in volume to 542,812 units and 12.4 percent in value to $0.7 billion.

The rebound in U.S. equipment spending, while strong in the aggregate, bypassed a number of important capital goods industries, including machine tools. Machine tool orders finally bottomed out in 1983, but with civilian aerospace companies, construction equipment and farm machinery manufacturers and oilfield equipment suppliers still in the doldrums, there were few signs of the sustained order rebound the domestic industry needed to pull out of its recession. Japanese machine tool builders were hardly more successful at winning volume contracts for their machining centers, numerically controlled lathes and other technologically innovative products than American makers. At the same time, though, deep discounts and other sales incentives enabled American distributors of Japanese-made machine tools to snare enough new business to whittle down stocks, which were kept at manageable levels by a 29.3 percent drop in imports to under $0.5 billion.

Consumer Goods - With consumer spending on durables propelling the economy out of recession in 1983, sales of consumer electronics products exploded. Both color television sets and portable tape systems set new records, while audio equipment staged a healthy comeback. The hottest sellers, though, were video cassette recorders (VCRs). VCR sales doubled last year to an estimated 4.1 million units, paralleling the jump in imports of Japanese-made machines, which hit 4,797,373 units valued at $1.6 billion. What unleashed this boom was the arrival of more affordable prices in the wake of the industry's 1982 price war. From around $800 in 1980, prices on low-end VCRs plunged to under $500 last year and in some cases even broke through the $400 floor. The availability of a wider range of pre-recorded programming and the increased number of stores renting movies and music videos also pumped up demand. So did the introduction of easier-to-operate machines and portable and high-fidelity models. The only cloud in the picture was profits. Already squeezed as a result of the price war, profits at both the manufacturer level and the distributor level came under more pressure last year.

The surge in consumer spending on durables also breathed some life into the hard-hit motorcycle market. With unemployment still high among young male blue-collar workers and stiff extra tariffs pushing up the prices of heavyweight motorcycles, however, the sales recovery was spotty. All-terrain vehicles (ATVs) were big sellers for the second consecutive year. In addition, the introduction of new street models in the 450-749 cubic centimeter displacement category generated buying activity in this segment. While other parts of the market continued to stumble along, Japanese motorcycle makers did achieve their primary objective for last year: bringing 1982's huge stocks under control. A big cut in imports, which fell 40.4 percent in volume to 511,519 units and 30.7 percent in value to $0.7 billion-plus, trimmed the inventory overhang at the distributor level, and bargain prices helped dealers move stocks of older-model motorcycles.

Intermediate Goods - The economic recovery gave the U.S. steel market a much-needed shot in the arm last year. Expanding output in the automotive industry -- steel's single largest customer -- and rebounding production of appliances pumped up demand for cold-rolled, hot-rolled and galvanized sheets, whether domestically manufactured or imported from Japan. The turnaround in the construction industry boosted shipments of flat-rolled products, too, as did bigger production of building products and plumbing equipment. Increased construction activity also raised demand for structural shapes and wire rods from both American and Japanese mills, while some pickup in the can industry pulled in more imports of tin and black plate.

Despite the recovery-generated strength in these and a handful of other steel markets, U.S. deliveries of Japanese-made steel tumbled in 1983 to their lowest level since 1965. The cause was not hard to track down: the huge inventories of oil-country tubular products and large diameter line pipe sitting in U.S. warehouses. A big jump in domestic oil and gas exploration and development in 1980 and again in 1981, coupled with capacity constraints in the American steel industry, had turned tubular products into the top steel imports from Japan by 1981. Drilling activity slowed in 1982, but Japanese mills, misreading the market, failed to turn off the export spigot fast enough, and stocks of imported tubes and pipes, like inventories of domestically made products, soared. With lower energy prices causing another drop in exploration and development last year, Japanese exporters had no choice but to pare U.S.-bound shipments of oil-country tubular products and line pipe to the bone. The cutback was so deep that it reduced the total volume of imports 18.3 percent to 4,236,915 tons and sliced the value of purchases 41 percent to just $2.1 billion.

Import Prospects

The continuation of a stronger-than-anticipated U.S. recovery could blow the lid off imports from Japan in 1984, particularly if the dollar remains high. With business spending on equipment moving into high gear, purchases of Japanese-made data processing equipment, semiconductors and other capital goods will again chalk up gains well into the double digits. Another increase is also in store for automotive products since, no matter what happens to truck shipments, the higher ceiling on Japan's U.S. car exports for FY 1984 will automatically translate into bigger imports. Consumer goods purchases can be expected to climb as well, paced once more by VCRs and other consumer electronics products. Steel imports, moreover, have nowhere to go but up.

For further information contact Susan MacKnight.

The views expressed in this report are those of the author and do not necessarily represent those of the Japan Economic Institute.

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U.S. Imports from Japan by Commodity, 1982 and 1983

(in millions of dollars* and indicated quantity units)

Commodity	Quantity 1982	Quantity 1983	Value 1982	Value 1983	Percent Change 1982/83	Japan's Share of U.S. Imports 1983
Total Imports			$37,743.7	$41,183.2	9.1%	16.0%
Automotive Products			12,889.8	14,919.3	15.7	36.5
Passenger Cars	1,712,725 no	1,791,164 no	9,169.2	10,293.5	12.3	44.9
Assembled Trucks	363,902 no	420,212 no	1,512.0	1,715.9	13.5	38.6
Automotive Parts, Accessories and Engines			1,481.5	2,061.3	39.1	18.2
Body Stampings			69.5	78.5	12.9	43.6
Brakes and Parts			25.5	35.7	40.0	9.5
Transmissions			81.8	124.6	52.3	16.1
Engines and Parts			274.5	383.9	39.9	13.9
Starting and Ignition Equipment			72.5	89.8	23.9	35.9
Electric Lighting Equipment			29.3	35.0	19.5	41.2
Radios	813,643 no	673,265 no	36.7	29.6	-19.3	10.9
Snowmobiles	24,640 no	20,572 no	33.1	32.4	-2.1	64.3
Golf Carts, Mopeds and Similar Vehicles	426,798 no	509,577 no	672.7	799.6	18.9	97.1
Capital Goods			9,529.7	11,895.8	24.8	29.1
Nonelectric Machinery			6,223.4	7,906.8	27.0	32.2
Business Machines			2,427.5	3,789.3	56.1	42.5
Calculators	13,567,450 no	16,925,952 no	185.7	196.0	5.5	68.5
Cash Registers (excl. point-of-sale units)	289,006 no	299,936 no	85.4	82.6	-3.3	97.2
Photocopiers and Parts			634.5	713.4	12.4	87.3
Photocopiers	396,265 no	542,812 no	531.6	575.1	8.2	88.1
Parts			102.8	138.3	34.5	84.2
Data Processing Equipment and Parts			828.2	1,780.7	115.0	40.5
Data Processing Equipment			393.1	1,062.8	170.4	55.5
Parts			435.1	717.8	65.0	28.9
Office Typewriters	184,046 no	410,450 no	55.5	105.8	90.6	38.9
Machine Tools and Parts			639.8	452.2	-29.3	41.3
Numerically Controlled Lathes	2,439 no	1,568 no	196.6	101.1	-48.6	85.9
Machining Centers	1,793 no	1,876 no	178.8	155.9	-12.8	92.0
Casting Machines Used in Metallurgy and Parts			33.4	79.8	138.9	55.8
Farm Tractors	40,841 no	45,960 no	142.9	169.6	18.7	30.9
Under 40 Horsepower	37,534 no	41,265 no	121.5	136.2	12.1	81.9
Hydraulic Excavators and Other Excavating Machinery and Parts			104.2	112.2	7.7	25.9
Front-End Loaders	1,027 no	1,582 no	36.0	60.4	67.8	39.6
Forklifts and Other Self-Propelled Work Trucks and Parts	9,900 no	12,616 no	82.0	96.2	17.3	54.7
Conveyors, Jacks and Other Materials Handling Equipment and Parts			140.6	111.7	-20.6	31.9
Hydraulic Jacks	353,544 no	714,816 no	22.6	38.4	69.9	43.2
Textile Machinery and Parts			108.7	146.2	34.5	18.3
Commercial Sewing Machines	86,049 no	111,023 no	35.8	42.8	19.6	54.7
Weaving Machines and Parts			19.1	31.0	62.3	13.7

Commodity	Quantity 1982	Quantity 1983	Value 1982	Value 1983	Percent Change 1982/83	Japan's Share of U.S. Imports 1983
Printing Equipment and Parts			$ 56.2	$ 66.7	18.7%	16.4%
Roll-Fed Offset Printing Presses	60 no	38 no	35.9	27.7	-22.8	37.8
Industrial Equipment for Treating Materials by Temperature Change and Parts			122.9	48.2	-60.8	18.6
Airconditioning Machinery and Parts			46.7	78.5	68.1	60.4
Pumps (except for motor vehicles) and Parts			93.3	41.7	-55.3	11.2
Compressors and Parts			102.6	141.3	37.7	41.6
Refrigeration and Airconditioning Compressors Over 1 Horsepower	1,210,955 no	1,604,348 no	62.4	74.9	20.0	91.3
Fans and Blowers (except for motor vehicles) and Parts			26.8	38.1	42.2	9.1
Power Hand Tools			104.4	113.6	8.8	44.4
Electric Hand Tools			49.8	57.9	16.3	48.9
Tools for Hand or Machine Use			84.7	94.5	11.6	18.5
Bearings and Parts			183.7	172.7	-6.0	40.4
Radial Ball Bearings			84.7	74.9	-11.6	44.7
Tapered Roller Bearings			50.5	60.6	20.0	66.9
Taps, Cocks, Valves and Similar Devices and Parts			120.6	86.0	-28.7	18.7
Speed Changers and Other Transmission Equipment			41.5	34.3	-17.3	19.0
Small Stationary Diesel Engines and Parts			78.7	64.8	-17.7	24.5
Small Stationary Gas Engines and Parts			81.8	84.6	3.4	49.6
Steam Turbines and Parts			27.3	17.9	-34.4	24.1
Electromedical Apparatus and Parts			34.1	61.9	81.5	29.7
X-Ray Apparatus and Parts			30.5	51.7	69.5	11.1
Medical, Dental and Veterinary Instruments and Parts			83.7	94.1	12.4	32.1
Astronomical Instruments and Parts			61.1	59.0	-3.4	74.1
Microscopes and Parts			33.1	37.9	14.5	45.0
Nonelectric Measuring, Checking, Analyzing and Controlling Instruments and Parts			63.8	79.1	24.0	24.1
Electric Measuring, Checking, Analyzing and Controlling Instruments and Parts			137.5	194.9	41.7	21.8
Instruments and Apparatus for Checking or Measuring Electrical Quantities			45.2	60.9	34.7	37.8
Film Processing and Printing Equipment			64.4	81.2	26.1	70.2
Magnetic Tape			275.1	400.3	45.5	77.3
Blank Video Cassettes	17,723,347 no	38,263,139 no	126.4	200.1	58.3	92.2
Blank Audio Cassettes	60,158,868 no	47,821,527 no	64.0	50.3	-21.4	51.7
Coin or Disc Operated Game Machines			122.9	42.0	-65.8	78.8
Electric Machinery			3,041.9	3,756.4	23.5	29.1
Semiconductors			545.2	852.6	56.4	17.5
Discrete Devices			98.8	172.0	74.1	23.3
Transistor Parts			34.5	102.7	197.7	41.0
Integrated Circuits			446.4	680.6	52.5	16.5
Digital Metal Oxide on Silicon Chips	116,565,001 no	193,750,890 no	329.0	546.0	66.0	22.8
Digital Bipolar Chips			70.9	72.6	2.4	6.7
Chips, Dice and Wafers			46.6	77.3	65.9	46.5
Printed Circuit Boards	14,773,731 no	13,491,012 no	64.8	57.2	-11.7	31.4
Capacitors			102.7	101.1	-1.6	34.4
Fixed Aluminum Electrolytic Capacitors	628,223,140 no	647,351,874 no	54.1	47.7	-11.8	80.8
Electronic Tubes and Parts (excl. television picture tubes)			39.1	58.1	48.6	33.1
Microphones, Loudspeakers and Amplifiers and Parts			250.1	299.1	19.6	52.8

Commodity	Quantity 1982	Quantity 1983	Value 1982	Value 1983	Percent Change 1982/83	Japan's Share of U.S. Imports 1983
Loudspeakers	23,289,520 no	22,382,731 no	$ 120.4	$ 124.8	3.7%	54.9%
Audiofrequency Amplifiers	1,651,348 no	2,088,982 no	79.6	101.2	27.1	63.7
Television Cameras and Parts	468,792 no	466,965 no	252.3	280.1	11.0	94.0
Radio Transceivers (excl. citizens' band)	329,200 no	305,975 no	48.8	49.9	2.3	49.5
Radar and Radio Navigational Aids and Parts			31.3	48.5	55.0	40.6
Radiotelephonic Apparatus and Parts			116.2	198.4	70.7	25.9
Telephone Apparatus and Parts			192.5	340.9	77.1	33.3
Telephone Switching Equipment and Parts			88.0	145.6	65.5	52.6
Telephone Instruments and Parts	868,382 no	1,908,859 no	46.1	109.9	138.4	26.5
Teleprinting and Teletypewriting Machines and Parts			83.0	67.5	-18.7	76.2
Telegraph Apparatus and Instruments and Parts			17.9	62.3	248.0	62.3
Switchgear			257.9	278.3	7.9	23.0
Switches			104.9	125.3	19.4	29.8
Relays			40.3	44.0	9.2	34.3
Rectifiers and Rectifying Equipment			47.3	56.0	18.4	18.6
Resistors			47.6	61.2	28.6	29.0
Insulated Electrical Conductors With Fittings			25.9	35.7	37.8	14.8
Electric Motors Under 1/40 Horsepower			54.4	70.1	28.9	59.3
Gasoline Engine Generators Not Over 5 Kilowatts	85,729 no	115,686 no	23.9	29.6	23.8	99.3
Welding Equipment and Parts			38.0	47.4	24.7	4.1
Batteries and Parts (excl. lead-acid batteries)			73.5	78.2	6.4	42.6
Permanent Magnets and Magnetic Workholders			42.1	45.0	6.9	49.5
Electric Signalling Apparatus and Parts			60.3	78.6	30.3	29.0
Transport Equipment			264.3	232.6	-12.0	6.9
Civilian Aircraft			40.1	23.2	-42.1	2.5
Aircraft Parts			143.1	138.6	-3.1	6.9
Parts for Rolling Stock			47.1	36.1	-23.4	30.4
Consumer Goods			7,842.4	8,296.4	5.8	18.5
Color Video Cassette Recorders	2,479,825 no	4,797,373 no	1,048.8	1,615.2	54.0	99.5
Video Tape Players	75,495 no	99,176 no	33.8	47.0	39.1	97.6
Assembled Color Television Receivers	716,125 no	912,636 no	238.2	222.9	-6.4	29.9
Assembled Black and White Television Receivers	361,146 no	339,121 no	31.2	32.2	3.2	13.2
TV Combinations			39.3	16.3	-58.5	19.0
Unassembled Television Receivers and Incomplete Subassemblies			162.0	167.9	3.6	22.4
Television Picture Tubes and Parts			71.4	62.9	-11.9	60.9
Parts for Television Receivers			473.2	473.8	0.1	38.9
Converters, Preamplifiers, Amplifiers and Couplings for Cable Television			177.4	185.5	4.6	46.6
AM and AM/FM Radio Receivers (except for motor vehicles)	4,384,361 no	4,467,800 no	218.7	216.6	-1.0	38.4
Radio Receivers (excl. entertainment broadcast band)			32.8	23.2	-29.3	71.4
Radio-Tape Recorder Combinations	3,337,130 no	3,654,031 no	246.2	229.5	-6.8	43.1
Radio-Tape Player Combinations	6,041,192 no	7,620,248 no	378.5	418.3	10.5	62.1
Radio-Phonograph-Tape Recorder Combinations	529,551 no	466,800 no	54.7	44.5	-18.6	36.5
Audio Tape Players	4,229,702 no	5,528,437 no	141.2	123.6	-12.5	77.7
Audio Tape Recorders and Dictation Machines and Parts	5,255,669 no	6,487,975 no	411.1	478.6	16.4	67.8
Record Players, Phonographs, Record Changers and Turntables and Parts	2,313,495 no	2,839,447 no	131.4	153.8	17.0	83.7
Electric Appliances			286.9	443.0	54.4	32.6
Microwave Ovens	536,653 no	1,025,491 no	109.6	185.3	69.1	56.0
Electric Stoves and Ranges and Parts			89.0	125.4	40.9	87.2

Commodity	Quantity 1982	Quantity 1983	Value 1982	Value 1983	Percent Change 1982/83	Japan's Share of U.S. Imports 1983
Kerosene Heaters	7,079,803 no	1,920,191 no	$ 391.6	$ 105.6	-73.0%	76.0%
Portable Typewriters	712,615 no	761,885 no	74.5	67.4	-9.5	54.4
Earthen and China Tableware and Household Articles			279.8	323.5	15.6	41.9
Nonbone China Tableware	125,379,444 pc	153,987,792 pc	110.9	127.7	15.1	41.1
Earthen Tableware	215,781,600 pc	255,261,168 pc	120.8	143.1	18.5	59.3
Table Flatware and Kitchen Knives			88.4	94.0	6.3	45.3
Metal Housewares			43.0	51.6	20.0	12.9
Pipe Wrenches and Spanners and Parts			38.0	25.8	-32.1	17.7
Variable Focus Still Cameras	3,359,494 no	4,202,325 no	386.4	422.2	9.3	87.2
Mounted Photographic Lenses	5,851,721 no	5,270,432 no	153.5	153.8	0.2	79.8
Flash Apparatus			53.4	50.2	-6.0	65.3
Still Photographic Color Film (110 size and 35 mm)	32,654,532 no	32,000,178 no	34.3	36.1	5.2	69.8
Optical Elements			64.4	58.3	-9.5	34.0
Glasses and Frames			32.3	51.5	59.4	13.6
Clocks and Watches and Parts			298.7	335.3	13.6	31.0
Solid State Electronic Watches	n.a.	6,188,931 no	n.a.	51.2	n.a.	20.6
Other Watches Without a Balance Wheel and Hairspring	n.a.	6,171,875 no	n.a.	171.1	n.a.	49.1
Toys and Sporting Goods			368.0	274.8	-25.3	11.3
Video Games and Parts			157.9	86.5	-45.2	18.0
Firearms and Parts			44.5	34.5	-22.5	31.2
Fishing Equipment			54.5	53.0	-2.8	34.6
Toys			49.0	35.7	-27.1	5.2
Musical Instruments and Parts			144.4	145.2	0.6	46.5
Pianos and Parts	28,500 no	22,500 no	46.0	37.3	-18.9	50.9
Electronic Musical Instruments			52.5	64.5	22.9	85.6
Motorcycles and Parts (excl. engines)			1,068.7	741.0	-30.7	93.6
Motorcycles	858,605 no	511,519 no	984.7	625.2	-36.5	94.9
Motorcycles With Piston Displacement Over 290 cc	463,134 no	288,317 no	767.0	495.3	-35.4	95.8
Parts (excl. engines)			83.9	115.9	38.1	86.9
Adult Bicycles and Parts			86.4	131.8	52.5	49.6
Bicycles	296,656 no	475,263 no	34.5	53.6	55.4	39.6
Parts			51.9	78.2	50.7	60.0
Outboard Motors	56,490 no	79,040 no	26.3	41.3	57.0	69.1
Clothing and Accessories			255.9	339.7	32.7	3.5
Women's and Girls' Cotton Jackets	2,661,984 no	2,647,800 no	38.1	34.8	-8.7	20.8
Women's Cotton Slacks	6,167,388 no	8,177,088 no	42.9	53.8	25.4	10.7
Women's and Girls' Cotton and Manmade-Fiber Knit Shirts	7,626,900 no	9,640,464 no	19.9	30.0	50.8	5.5
Furniture			24.1	33.8	40.2	3.4
Pearls (not set or strung)			85.4	150.1	75.8	90.5
Jewelry			32.9	39.7	20.7	3.4
Printed Material			83.9	98.5	17.4	13.3
Pens and Pencils			51.7	74.1	43.3	63.6
Pharmaceuticals			104.0	138.5	33.2	11.7
Bulk Vitamins			40.8	67.5	65.4	56.5
Benzenoid Drugs			33.7	54.6	62.0	11.1
Intermediate Goods			6,794.9	5,391.3	-20.7	5.0
Steel Mill Products	5,185,138 stn	4,236,915 stn	3,585.9	2,117.4	-41.0	0.6
Wire Rods and Bars	839,610 stn	864,535 stn	403.2	337.8	-16.2	25.8
Unalloyed Wire Rods	141,930 stn	189,625 stn	55.2	69.0	25.0	22.7
Semifinished Angles, Shapes and Sections Over 3"	448,776 stn	457,211 stn	181.0	142.2	-21.4	33.2

Commodity	Quantity		Value		Percent Change	Japan's Share of U.S. Imports
	1982	1983	1982	1983	1982/83	1983
Plates and Sheets	1,708,699 stn	2,364,270 stn	$ 762.8	$1,012.8	32.8%	33.8%
Tin Plate and Tin-Coated Sheets	112,132 stn	164,310 stn	70.8	96.6	36.4	56.8
Coated Plates and Sheets	694,511 stn	1,008,627 stn	318.3	454.6	42.8	52.6
Unalloyed Non-Pickled Plates and Pickled Sheets	246,305 stn	223,869 stn	85.7	64.1	-19.4	13.3
Unalloyed Hot-Rolled Sheets	182,927 stn	145,777 stn	60.0	44.9	-25.2	13.4
Unalloyed Cold-Rolled Sheets	296,452 stn	558,960 stn	123.9	203.4	64.2	26.3
Strip	29,577 stn	40,331 stn	31.7	39.9	25.9	30.4
Rails	122,363 stn	87,213 stn	56.7	34.0	-40.0	60.8
Wire	87,088 stn	131,255 stn	64.2	83.8	30.5	29.2
Unalloyed and Uncoated Wire	65,628 stn	105,111 stn	38.4	55.8	45.3	42.8
Tubes, Pipes and Fittings	2,492,171 stn	745,045 stn	2,263.4	420.8	-81.4	30.8
Cast Fittings, Forged Steel Flanges and Butt-Weld Fittings	45,334 stn	22,755 stn	81.2	31.3	-61.5	36.7
Unalloyed Welded or Seamless API Line Pipe	583,398 stn	105,234 stn	320.2	38.6	-87.9	30.3
Unalloyed Welded or Seamless Pipes and Tubes, Not Threaded	397,987 stn	158,471 stn	215.8	55.7	-74.2	31.4
Unalloyed Welded or Seamless Pipes and Tubes, Threaded	552,191 stn	102,607 stn	595.6	63.3	-89.4	67.0
Unalloyed Pipes and Tubes of Circular Cross Section	247,005 stn	100,632 stn	284.8	48.0	-83.1	41.5
Alloyed Pipes and Tubes	214,743 stn	32,991 stn	375.4	52.2	-86.1	38.4
Nonferrous Metals			314.6	393.3	25.0	5.3
Copper and Copper Alloys			78.7	107.1	36.1	8.0
Pipes and Tubes			42.4	50.7	19.6	40.3
Aluminum and Aluminum Alloys			177.9	222.7	25.2	13.7
Wrought Aluminum Sheets and Strip, Not Clad	87,034 stn	113,223 stn	170.6	211.1	23.7	47.8
Refined Gold Bullion	46,445 toz	73,841 toz	18.3	32.5	77.6	2.1
Steel Pillars, Girders and Similar Structural Units			35.0	23.9	-31.7	23.1
Wire Products (excl. insulated electric wire)			92.4	95.2	3.0	24.7
Steel Wire Strand, Unfitted and Uncovered	60,359 stn	47,847 stn	48.5	40.4	-16.7	32.7
Nails and Industrial Fasteners			295.1	293.4	-0.6	38.3
Steel Bolts and Bolts With Nuts	44,620 stn	46,833 stn	38.3	35.9	-6.3	44.3
Steel Nuts	50,420 stn	47,188 stn	69.2	62.2	-10.1	54.0
Steel Screws	125,805 stn	132,440 stn	135.6	134.7	-0.7	65.6
Steel Chains and Parts			43.5	51.2	17.7	50.9
Industrial Chemicals (excl. fertilizers and pharmaceuticals)			672.5	849.4	26.3	16.9
Organic Chemicals Found Naturally in Coal Tars			40.1	17.8	-55.6	4.1
Other Cyclic Organic Chemical Products			101.6	135.0	32.9	22.7
Flavors and Other Aromatic Compounds			19.0	32.5	71.1	59.5
Amino Acids and Other Nitrogenous Compounds			96.1	101.5	5.6	18.1
Synthetic Organic Dyestuffs			54.1	83.1	53.6	29.5
Plastic Materials and Resins			179.2	243.6	35.9	24.6
Polystyrene Resins and Styrene Copolymers and Terpolymers			18.8	47.7	153.7	57.7
Flexible Film, Strips and Sheets of Plastic Materials			87.2	97.8	12.2	22.4
Tires and Tubes			376.2	409.1	8.7	29.1
Car Tires	2,920,263 no	4,482,110 no	86.3	127.1	47.3	19.1
Truck and Bus Tires	1,656,662 no	1,777,781 no	223.7	215.9	-1.2	44.7
Plywood and Veneers	96,442 msf	122,683 msf	34.3	42.5	23.9	6.0
Paper and Paper Products			47.4	63.7	34.4	1.6
Yarns, Fabrics and Made-Up Textile Articles			528.1	581.7	10.1	18.0
Manmade-Fiber Yarn	7,589 stn	12,014 stn	33.4	48.0	43.7	21.9
Cotton Fabrics	41,153,793 syd	50,007,199 syd	54.7	65.7	20.1	11.7

Commodity	Quantity 1982	Quantity 1983	Value 1982	Value 1983	Percent Change 1982/83	Japan's Share of U.S. Imports 1983
Manamde-Fiber Fabrics	221,062,584 syd	274,780,650 syd	$260.9	$278.6	6.8%	47.5%
Bleached or Colored Fabrics of Continuous Polyester Fibers	165,936,008 syd	197,166,684 syd	190.3	199.1	4.6	64.5
Wadding, Batting and Nonwoven Fabrics	894 stn	939 stn	41.3	38.4	-7.0	57.2
Ceramic Tile	45,498,973 sft	51,545,517 sft	33.7	39.9	18.4	23.5
Electrodes for Electric Furnaces or Electrolytic Use	18,462 stn	23,113 stn	39.4	43.7	10.9	76.7
Photographic Film and Paper (excl. film packaged for retail sale)			224.3	262.5	17.0	45.1
Medical X-Ray Film	165,763,705 sft	100,746,787 sft	62.3	70.7	13.5	51.6
Silver Halide Color Photographic Paper	379,742,347 sft	479,713,395 sft	81.3	109.1	34.2	64.2
Food and Feed			307.0	365.2	19.0	2.0
Fish and Fish Products			192.0	218.5	13.8	6.1
Fresh, Chilled or Frozen Tuna	43,677 stn	53,146 stn	59.3	52.3	-11.8	25.5
Scallops	421 stn	3,713 stn	3.5	33.1	845.7	20.9
Miscellaneous Imports			380.0	315.2	-17.1	5.0

Key to quantity abbreviations:

msf = thousand square feet
no = number
pc = pieces
sft = square feet
stn = short tons
syd = square yards
toz = troy ounces

*Imports are valued on a Customs value basis.

Source: U.S. Department of Commerce, U.S. General Imports: Schedule A Commodity by Country (FT 135), December 1982 and December 1983

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Steel Wins Round One in Fight for Quotas

Bethlehem Steel Corp. took a calculated risk in late January when it broke ranks with other U.S. steel mills and petitioned the president to impose quotas on foreign steel under Section 201 of the 1974 Trade Act. A negative injury decision by the International Trade Commission (ITC), analysts cautioned at the time, could jeopardize favorable congressional consideration of an industry-supported quota bill. United States Steel Corp., the top U.S. maker, warned that the escape-clause investigation might tempt the European Community to end its restraints on steel exports to the United States or cause Japanese exporters to abandon their informal shipments curbs.

Bethlehem's gamble paid its first returns June 12. By a 3-to-2 vote, the ITC concluded that increasing imports in five major product lines are a substantial cause of the U.S. steel industry's serious problems. Found to be injuring domestic mills were semi-finished products (ingots, blooms, billets, increased lending by international financial institutions can make a critical difference -- a view held by many other nations including Japan. The solution to the debt crisis will be slow and painful in coming, he has pointed out, and governments must provide the patience and distribute the pain in order to reach that goal.

Mr. Volcker's remarks may play a role in smoothing out U.S.-Japan disputes in the coming months. Meanwhile, the Japanese have found the Fed official an unexpected ally. While the administration may stick to its "no-link" position on deficits and interest rates in an election year, the financial markets took Mr. Volcker's comments seriously, and securities and bond markets were rattled by his somber warning. The debate on these issues is unlikely to calm down before the election, and leaders on both sides of the Pacific might give Mr. Volcker's words careful consideration.

Jon Choy

Japanese Unions Sign Wage Settlements for 1984

Summer usually signals the conclusion of wage contract negotiations in Japan. This year, the spring offensive brought meager gains for labor despite the recovering economy. According to survey data from Nihon Keizai Shimbun (see table below), 1,542 leading companies gave their employees an average 4.50 percent wage hike, which translates into an extra Y9,262 ($40.27) per month. In percentage terms, 1984's average settlement fell a shade short of last year's 4.53 percent average; in yen terms, it added Y233 more to workers' paychecks.

Japanese Wage Settlements for 1984

(average monthly wage increase in yen and percentage increase)

Industry:	1984		New Monthly Standard Wage	1983	
Energy	Y9,959	4.35%	Y228,561	Y9,508	4.24%
Metals	6,956	3.21	216,170	6,742	3.19
Electronics/Electrical	9,479	4.99	189,679	8,981	4.88
Information	13,079	5.50	237,396	13,167	5.74
Machinery	9,466	4.59	206,079	9,354	4.68
Environment	9,120	4.41	206,441	8,946	4.45
Automobiles	9,255	4.82	191,820	8,996	4.86
Shipbuilding/Defense	7,097	3.28	215,853	6,896	3.30
Transportation	10,036	4.52	221,963	9,443	4.38
Chemicals	10,156	4.67	217,378	9,724	4.63
Textile/Paper	8,476	4.52	187,261	7,909	4.33
Food	9,913	4.81	205,990	9,859	4.95
Services/Leisure	10,151	5.23	194,018	9,665	5.24
Housing/Construction	9,673	4.19	230,448	10,274	4.61
Trading	5,410	2.40	224,773	5,683	2.59
Consumer Retailing	8,694	4.64	187,360	8,656	4.81
Securities	9,044	4.93	183,437	10,065	5.70

Source: Nihon Keizai Shimbun

While labor unions were cowed by the recession last year, the general recovery at home and abroad reawakened their hopes for substantial wage gains. The major labor unions sought an average 6 percent increase, with individual labor unions asking for raises of 5 to 10 percent. Unions tried to seek realistic goals after their embarrassing 1982 experience when they sought an average 8 percent raise and settled for about half (see JEI Report No. 16B, April 20, 1984).

Business leaders countered union demands by arguing that steady prices (the consumer price index rose only 1.9 percent in fiscal 1983) and a precarious recovery (one still strongly reliant on the external sector) made it unwise to raise wages substantially. The steel workers' record-setting low 3.11 percent raise had a chilling effect on all subsequent negotiations, dashing labor's hopes for a prosperous year.

The distribution of wage increases by industry reflects the skewed recovery: metals and shipbuilding firms offered wage hikes of just over 3 percent; machinery and electronics companies gave 4.5-5.0 percent increases; and information and services concerns raised salaries 5 percent or more. In yen terms, hikes of Y10,000-Y11,000 were approved by just 14 percent of the surveyed businesses; raises of Y9,000-Y10,000 were given by 26 percent of the establishments; and settlements of Y8,000-Y9,000 resulted in 20 percent of the negotiations.

The economic impact of a second year of low wage increases is not promising. In fiscal 1983, consumer spending by wage earners rose just 0.6 percent, as opposed to a 2.7 percent gain in fiscal 1982 and a 1.2 percent rise in FY 1981. This tiny gain was a direct result of low 1983 wage settlements, which pushed real income up by just 1.5 percent (as opposed to 3.9 percent in FY 1982). While the spreading recovery may encourage consumers to loosen their purse strings, the low 1984 wage settlements will mean that those purses will not be bulging.

Jon Choy

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The views expressed in this report are those of the authors and do not necessarily represent those of the Japan Economic Institute.

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REPORT

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GNP Up in Japan

Recently released GNP figures in Japan showed considerable strength and brought fiscal year growth to a level slightly above the government's prediction. Unfortunately, the principal engine of growth remains net exports, although domestic private sectors continue to show some signs of recovery. For the first quarter of the year, real (inflation adjusted) GNP rose at an annualized rate of 7.4 percent, and full fiscal year growth (April 1983-March 1983) came to 3.7 percent, slightly higher than the government forecast of 3.5 percent. Full details are contained in the accompanying table.

Japan's Real Gross National Product at Constant Prices (1975 Prices)

(in billions of yen, seasonally adjusted, quarterly totals and rates of growth at annual rates)

	FY 1982	FY 1983	April-June 1983	July-September 1983	October-December 1983	January-March 1984
Gross National Product	Y205,260.3 (3.3%)	Y212,784.9 (3.7%)	Y208,684.0 (4.5%)	Y211,856.1 (6.2%)	Y213,500.8 (3.1%)	Y217,339.8 (7.4%)
Personal Consumption Spending	108,092.5 (4.6%)	111,219.7 (2.9%)	109,915.3 (0.7%)	110,848.1 (3.4%)	111,452.2 (2.2%)	112,683.4 (4.5%)
Private Residential Construction	10,805.2 (1.3%)	10,016.6 (-7.6%)	9,577.3 (-41.9%)	9,904.1 (14.4%)	10,464.2 (24.6%)	10,218.7 (-9.1%)
Private Fixed Nonresidential Investment	35,208.3 (2.8%)	36,540.0 (3.8%)	35,400.2 (3.8%)	36,002.0 (7.0%)	36,767.7 (8.8%)	37,854.4 (12.4%)
Change in Business Inventories	1,237.9 (-30.4%)	704.0 (-43.1%)	884.8 (*)	400.4 (*)	891.7 (*)	639.2 (*)
Government Current Expenditures	19,347.3 (2.0%)	19,951.4 (3.1%)	19,622.4 (2.5%)	19,843.5 (4.6%)	20,046.9 (4.2%)	20,294.6 (5.0%)
Government Fixed Investment	18,470.2 (1.1%)	18,457.9 (-0.1%)	18,768.8 (21.6%)	18,932.2 (3.5%)	18,381.3 (-11.1%)	17,894.2 (-10.2)
Change in Government Inventories	-371.2 (-136.3%)	-261.9 (-29.4%)	-206.0 (*)	-165.6 (*)	-676.3 (*)	-17.8 (*)
Net External Sector	12,470.2 (6.9%)	16,157.2 (29.6%)	14,720.2 (40.0%)	16,091.4 (42.8%)	16,173.1 (2.0%)	17,773.1 (45.8%)
Exports of Goods and Services and Factor Income Received	40,282.6 (0.7%)	44,060.4 (9.4%)	41,108.1 (12.8%)	43,292.3 (23.0%)	44,987.1 (16.6%)	46,974.8 (18.9%)
Imports of Goods and Services and Factor Income Paid	27,812.4 (-1.9%)	27,903.2 (0.3%)	26,387.9 (0.4%)	27,200.9 (12.9%)	28,814.0 (25.9%)	29,201.7 (5.5%)

*Cannot be calculated or meaningless.

Source: Economic Planning Agency

STATISTICAL SUPPLEMENT

Trade and Payments Data
(in millions of dollars unless otherwise indicated)

	1982	1983	January-April 1983	January-April 1984	February 1984	March 1984	April 1984
Japan's Balance of Payments							
Trade Balance	$ 18,079	$ 31,454	$ 7,317	$11,547*	$ 3,126*	$ 4,229*	$ 3,902*
Exports (f.o.b.)	137,663	145,468	45,379	52,899*	13,066*	15,423*	14,284*
Imports (f.o.b.)	119,584	114,014	38,062	41,352*	9,940*	11,194*	10,382*
Current Account Balance	6,850	20,799	3,643	8,375*	2,010*	3,367*	3,524*
Long-Term Capital (net)	-14,969	-17,700	-4,644	-10,360*	-2,231*	-1,968*	-4,423*
Overall Balance	-4,971	5,177	-4,346	-4,855	-154	-533	-1,785
International Reserves (end of period)	23,262	24,496	24,272	25,321	24,984	25,109	25,321
Japan's Customs Clearance Trade							
Trade Balance	6,900	20,534	3,764	7,657*	2,179	3,200	3,114*
Exports (f.o.b.)	138,831	146,928	45,468	53,453*	13,244	15,569	14,440*
Cars	18,015	19,535	6,488	7,096*	1,693	1,449	2,307*
Steel	15,645	12,843	3,961	4,249*	1,025	1,267	1,049*
Imports (c.i.f.)	131,931	126,393	41,704	45,796*	11,065	12,370	11,326*
Crude Oil	46,274	40,063	14,848	14,045*	3,519	4,053	3,190*
Japan-U.S. Trade							
Trade Balance	12,151	18,181	4,517	8,840*	2,141	2,417	3,017*
Exports (f.o.b.)	36,330	42,829	12,014	17,645*	4,407	4,691	5,141*
Imports (c.i.f.)	24,179	24,648	7,497	8,805*	2,266	2,274	2,124*
Yen-Dollar Exchange Rate							
Tokyo Spot Market (end of period)	Y235.00	Y232.20	---	---	Y233.50	Y224.70	Y226.00
U.S.-Japan Trade							
Trade Balance	-16,778	-19,289	-5,810	-10,077	-1,821	-2,730	-2,766
Exports (f.a.s.)	20,966	21,894	6,558	7,567	1,813	2,028	1,872
Industrial Supplies	9,173	8,734	2,889	2,916	726	775	691
Food and Feed	4,971	5,555	1,576	2,004	439	513	527
Capital Goods	4,434	5,116	1,345	1,785	435	510	449
Consumer Goods	1,356	1,394	457	465	119	127	110
Imports (Customs)	37,744	41,183	12,368	17,644	3,634	4,758	4,638
Automotive Products	12,890	14,919	4,471	5,579	1,121	1,571	1,372
Industrial Supplies	6,795	5,391	1,671	2,424	568	602	645
Consumer Goods	7,842	8,296	2,511	3,479	705	944	962
Capital Goods	9,530	11,896	3,502	5,889	1,172	1,576	1,594

*Preliminary

STATISTICAL SUPPLEMENT

Japanese Economic Indicators

(percentage change from year-earlier period unless otherwise indicated)

	1982	1983	January-March 1983	January-March 1984	January 1984	February 1984	March 1984
Discount Rate (end of period)	5.5%	5.0%	5.5%	5.0%	5.0%	5.0%	5.0%
Outstanding Money Supply	9.2%	7.4%	7.6%	7.9%	7.6%	7.8%	8.4%
Industrial Production	0.3%	3.6%	-0.9%	11.2%*	10.0%	13.6%	10.0%*
Manufacturing Operating Rate	-2.9%	1.6%	-2.8%	9.2%	7.7%	12.3%	7.5%
Number of Bankruptcies	-2.8%	11.9%	5.7%	18.9%	19.3%	22.8%	15.5%
Residential Construction Starts	-0.5%	-0.8%	4.5%	-0.8%	-11.7%	2.8%	5.6%
Job Openings to Applications (ratio)	0.61	0.60	0.59	0.64	0.64	0.65	0.64
Nominal Wages	4.5%	3.5%	5.7%	4.1%	3.3%	3.8%	5.2%
Labor Productivity	1.0%	4.6%	n.a.	n.a.	n.a.	n.a.	n.a.
Wholesale Prices	1.8%	-2.2%	-0.7%	-1.3%	-1.4%	-1.3%	-1.3%
Consumer Prices	2.7%	1.9%	2.1%	2.4%	1.8%	2.9%	2.5%
Yen-Based Export Prices	3.9%	-6.0%	-5.1%	-1.0%	-1.0%	-0.2%	-1.9%
Yen-Based Import Prices	7.9%	-7.8%	-0.6%	-6.6%	-6.5%	-6.8%	-6.4%

*Preliminary

For Japan's most recent GNP figures, see JEI Report No. 25B, June 29, 1984.

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House Dilutes Trade Remedies Bill

Before leaving for the Fourth of July recess, the House of Representatives weakened the controversial trade remedies legislation introduced by Rep. Sam Gibbons (D, Florida) by eliminating its industrial targeting section. The bill was removed from the House agenda late in its final working day before the recess, casting doubts about its prospects for approval.

H.R. 4784 has faced a bumpy road through the House. Disputes delayed its drafting until well into 1983. Progress since then has come in spurts. After a lengthy markup session in the international trade subcommittee, the full Ways and Means Committee swiftly approved the measure, leading to speculation that it would advance quickly through the House and then the Senate.

The most recent developments suggest otherwise, however. The bill had been placed on the list of measures to be considered by the House membership during the week of June 25, but was delayed when labor interests urged

Labor and industry testimony presented even grimmer scenarios if the government does not implement a coordinated policy to foster this vital sector. Again concentrating on market access disparities, their estimates of import growth ranged from 300 to 500 percent, while export growth is projected to be only around 50 percent. Wayne Weeks of AT&T Technologies urged Congress to act to force America's partners to open up their markets, though he shied away from advocating protectionist measures. An industry observer claimed that the disparity in market size caused by unequal access would give foreign competitors an edge in the fiercely competitive U.S. market, making it possible for them to gain a foothold with low-end products and move into more lucrative lines. The industry believes that it is necessary to formulate a coherent approach to promoting American business from a global perspective -- a perspective ignored when the AT&T divestiture plans were made. Labor's witness was harsh when it came to America's trading partners, demanding that international trade guidelines be adhered to on penalty of retaliatory actions by the United States.

In sum, American concern over unequal access was made abundantly clear, though the severity of the consequences is still open to debate. The administration held up Japan's liberalization moves as a significant achievement and expressed optimism on American prospects in the world's second-largest telecommunications market. Pessimism prevailed, however, vis-a-vis prospects in the European market, though administration spokesmen held out some hope for concluding bilateral agreements with Europe's national monopolies similar to the U.S.-NTT purchasing pact.

There appears to be a building tide of sentiment against protectionist bills concerning automobile trade. The prospects for Senator Danforth's telecommunications tariff bill (see JEI Report No. 19B, May 11, 1984) on the other hand, brightened somewhat, as the majority of witnesses, including administration envoys, were supportive in varying degrees. Successful implementation of Japan's liberalization plans could serve as a powerful argument against such moves.

Jon Choy

Japan's Steel Mills Face No-Win Situation on Coal Imports

As the top foreign suppliers of steel to the American market, Japanese steel manufacturers are no strangers to the politicization of trade issues in the United States, particularly in election years. What is new is the latest target of this process: the mills' coking coal purchases. With U.S. exports of coking coal this year not even expected to match 1983's scaled-back level, Japan's steel industry has come under increasing fire from the Congress, the Reagan administration and U.S. coal exporters for trimming purchases at a time when the bilateral trade deficit is ballooning. Coal-state congressional members have been particularly blunt about the linkage, but domestic producers pulled no punches in their May meetings with Japanese coal users (see JEI Report No. 21B, June 1, 1984). Steel companies must buy more U.S. coal as well as assure American suppliers their "traditional" one-third share of the imported coal market in Japan to forestall congressional action on the sale of Japanese products here, they warned.

Japan's Imports of Coking Coal, 1973-83

(in metric tons)

	Total		United States		Australia		Canada	
	Volume	Share	Volume	Share	Volume	Share	Volume	Share
1973	55,823,013	100.0%	16,538,488	29.6%	24,913,519	44.6%	10,320,726	18.5%
1974	62,452,157	100.0	25,400,045	40.7	22,799,745	36.5	9,568,868	15.3
1975	60,706,004	100.0	22,418,454	36.9	22,787,095	37.5	10,664,564	17.6
1976	59,123,306	100.0	17,455,345	29.5	26,040,316	44.0	10,296,612	17.4
1977	58,472,029	100.0	15,178,559	26.0	26,013,120	44.5	10,763,154	18.4
1978	50,100,613	100.0	8,869,016	17.7	24,492,041	48.9	9,715,180	19.4
1979	56,117,887	100.0	13,524,687	24.1	26,038,530	46.4	10,463,815	18.6
1980	61,816,041	100.0	19,234,136	31.1	25,781,882	41.7	10,581,454	17.1
1981	65,756,719	100.0	21,571,389	32.8	29,128,313	44.3	9,553,911	14.5
1982	64,870,265	100.0	23,909,734	36.9	25,406,479	39.2	9,536,011	14.7
1983	59,833,943	100.0	14,717,058	24.6	28,175,361	47.1	10,261,228	17.1

Source: Japan Tariff Association, Japan Exports and Imports: Commodity by Country

At first glance, the U.S. push for a fixed share of Japan's imported coking coal market is a more realistic approach to the coal trade problem than the parallel call for increased purchases since it accomodates changing production requirements in the steel industry. The drawback of this campaign is the market share claimed by American exporters. At different times over the past eleven years, U.S. coal has accounted for one-third or more of Japan's imports (see accompanying table). Each time, though, a special set of factors helped U.S. coal win an above-average market share. In 1981, for example, Japanese steel mills significantly expanded their spot purchases of American coal to make up for shortfalls in Australian shipments of 10 to 30 percent of contracted amounts. Assuming that mine strikes and port delays would keep on disrupting deliveries from their top supplier, steel makers continued to buy large volumes of U.S. spot-market coal in the first part of 1982. Coming on top of coal bought under short-term contracts, these purchases swelled the U.S. share of Japan's coking coal imports.

Whether or not U.S. coal companies can rightfully claim one-third of the import market, Japanese steel mills are saddled with a no-win situation. Bowing to U.S. demands for increased purchases means cutting imports from other suppliers since steel production this year is expected to remain stuck around the 100 million metric ton level. The mills have some room to reduce deliveries under their long-term contracts with older mines in Australia and Canada, although such a step would further strain relations with suppliers already angry about the price cuts they have been forced to absorb. Japanese steel executives claim, though, that they must take the increasingly large volumes of coal they contracted to buy from new Australian and Canadian mines. Many of these mines, it is pointed out, used their Japanese contracts to obtain project financing, while some were developed with Japanese capital.

The fact that Japanese steel makers are overcommitted to Australian and Canadian coal producers elicits no sympathy among U.S. coal industry representatives. The mills will somehow have to juggle their purchases, they say, noting that Japanese steel producers rarely take all of their commitments from American mines. Arguments that U.S. coal is more expensive than supplies from other sources also get short shrift. If steel manufacturers had concluded long-term contracts with American mines like they did with Australian and Canadian coal companies, spokesmen maintain, U.S. coal would be more competitive. In any case, they add, this is the price Japan must pay to accomodate its top trading partner.

Susan MacKnight

June Exchange-Market Report

For anyone concerned with the competitiveness of U.S. manufactured goods relative to Japanese-made products, June brought more dismal news as the yen sank in value against the U.S. dollar. Measured by the median interbank rate on the Tokyo exchange spot market, the yen fell by 2.5 percent during the month, from Y231.5=$1 on May 31 to Y237.5 on June 29, the final trading days of the two months. Hovering in a range of Y230-Y232 during the first half of the month, the slide against the dollar occurred in the final two weeks, stabilizing at around Y237 after June 25. This marked the yen's lowest value

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JEI

REPORT

NO. 27A July 13, 1984

EQUAL OPPORTUNITY LEGISLATION IN JAPAN

Summary

Once again external pressure has materialized to boost the Japanese government over a domestic hurdle. This time the subject is passage of a controversial piece of legislation designed to advance the cause of working women -- the Equal Opportunity Employment bill. The government's main concern at this time is meeting the deadline for ratification of the United Nation's Convention to Eliminate All Forms of Discrimination Against Women. Japan pledged to complete this process by 1985 when the U.N. Decade for Women ends.

Outline of the Proposed Bill

The Equal Opportunity Bill sent to the Diet on May 14 represents a compromise after a long and ferocious battle between women's organizations and groups in the business community, including the influential Japan Federation of Employers' Associations (Nikkeiren). Women's groups are not satisfied with the bill, which in its current state provides no penalties for companies that violate the law, while the business community, for its part, resists any legislation that might disturb the status quo. Ginko Sato, director of International Labor Affairs for the Labor Ministry, suggests that two factors point to passage of the equal opportunity legislation: first, the impending deadline for ratification of the Convention; and second, structural changes accelerating the participation of women in the workforce. She stresses the significance of vigorous international support, which she notes greatly improves the legislation's chances, adding, "In Japan it is almost impossible to reach a consensus on such a controversial issue without outside pressure."

The legislation is designed to prohibit discrimination against women in the workplace, and calls for relaxing certain restrictions on overtime and late night work that previously all but eliminated women from many jobs. Covered in the new law are regulations governing maternity leave, recruiting and hiring, assignment and promotion, training, benefits, mandatory retirement and discharge. The statute prescribes that recruitment and job assignments be handled so that "desirable goals will be accomplished" and prohibits discrimination in training, benefit and retirement programs.

The legislation assumes these conditions will be met with the good will of individual companies and is framed more as a guideline than a legal obligation. The regulations on overtime and holiday work would be abolished for women in managerial positions and professional work. Overtime for women working in non-manufacturing industries can be stretched from six to 12 hours a week, and restrictions on women employed on night jobs (like food processing and taxi driving) have been lifted. The Labor Ministry has said it plans to prepare specific recommendations before the law's effective date of April 1, 1986. A new "Equal Labor Opportunity Mediation Committee" is to be established to serve as the ombudsman in disputes between employees and employers.

Historical Background

Mayumi Moriyama, an upper house LDP Dietwoman and former chief of the Women's and Young Workers' Bureau, stresses that a long history of legislation preceded the U.N.'s adoption of the Convention in 1979 (see Appendix). Citing her experience as a Labor Ministry official, she says, "I had a hard time wiping out discrimination in the Japanese government. In 1975, I found discrimination against women working for the government in such jobs as air traffic controller, immigration officer, maritime safety official, etc. When I confronted male personnel officers in various government agencies for an explanation, they tried to justify these policies by explaining that there were no toilets for women in the buildings."

In addition to revised employment practices, certain other adjustments must be made if Japan is to be in compliance with the resolution. One such revision involving the question of Japanese citizenship was resolved in May of this year. Heretofore, the children of Japanese women married to non-Japanese men could not become Japanese citizens, although the offspring of Japanese men with foreign wives were eligible for citizenship. The provision, which was incompatible with the U.N. Convention stipulating that "states shall grant women equal rights with men with respect to the nationality of their children," was revoked.

Discrimination in the school curriculum in the form of mandatory home economics courses for girls is another hurdle. The U.N. document calls for "access to the same curricula" and "the elimination of any stereotyped concept of the roles of men and women in all levels and in all forms of education." Japanese feminists have been putting pressure on the schools to break the tradition of women staying at home. After some resistance, the Education Ministry agreed to establish a panel to review the curriculum. This was seen as a significant breakthrough, and last month activists from all over Japan advocating coeducation in home economics demonstrated in Tokyo to urge the

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ministry to go ahead with a revision. The subject has produced a lively debate. Writing in one of the leading newspapers, Professor Masatoshi Hara of Shizuoka University observed that "home economics should not be a mandatory course for anyone, but an elective subject in a category with other job-training skills like agriculture, accounting, electronics and data processing." Many professional women agree with this view, except of course home economics teachers.

A compromise is said to be in the making that would offer as electives both home economics and martial arts. Students would be permitted to choose either course. This concession, however, while satisfying external and internal pressures, would not substantially change the existing role stereotyping that is built into the Japanese school curriculum.

Economic Background

Japan's changing economic structure is an important factor in this discussion. Yoshio Higuchi, an assistant professor at Keio University, said in a recent Nihon Keizai Shimbun article that the shift from manufacturing to service industries has brought about a significant rise in the number of women in the workforce (Table 1). This trend favors part-time and flexible jobs, which are mostly held by women, and is ideal for married women who formerly had trouble finding jobs that accommodated their family responsibilities, he said. Since service industries adjust the number of employees to suit fluctuating demand, part-time workers, an increasing number of whom are women, are preferred.

Mr. Higuchi has analyzed the correlation between the business cycle and the rate of women's participation in the workforce by comparing statistics before and after the oil crisis. He notes that before the oil-price hikes, when Japan's economy expanded rapidly, the employment rate for women varied with the highs and lows of the business cycle but generally showed a downward curve. After the crisis, when many manufacturing industries slowed down and service industries came to lead and support the economy, the correlation changed significantly -- if it didn't exactly reverse. That is, the ratio of women in the working population remained stable even when the economy dipped sharply.

Two further developments are worth noting. First, the increase in the labor force of married women in the middle-income group was higher than in lower-income groups, contrary to their respective needs to supplement the family income (Table 2). Second, the ratio of women working part-time (less than 35 hours a week) increased dramatically (Table 3), and accounted for 20.5 percent of all female employees in 1982.

Increased life expectancy is another factor that has affected the employment structure. Ichiko Ishihara, a managing director of Takashimaya Department Store, points out that longevity and modern life-styles have led to a demand for jobs from married women who once stayed at home. Mrs. Ishihara, whose remarkable career is a model for women in the Japanese business world, says "We cannot tolerate discrimination against women in the workplace. Men should be happy with wives working in an equal situation."

Public Response

Reaction to the proposed legislation varies considerably, even among working women. Sumiko Ariizumi, a magazine editor who says she has never been a victim of discrimination, says "My experience might not be common, but I have never experienced any discrimination -- inside or outside of the company. I would prefer a loosely defined law that varies according to the job." Ms. Ariizumi does not like the idea of enforcing the law by providing penalties for violators.

Most women who have specialized skills say they do not perceive significant discrimination against them in their own offices. Yet the general attitude toward women is not favorable. A female lawyer, Teruko Konishi, criticized the bill as a version of the existing Welfare of Women Workers' Act, which was originally intended to ease the pressures of women with jobs and household responsibilities. Ms. Konishi, who is in a profession unusual for women, doubts the bill will have any impact since it is not enforceable, and would prefer to see a stronger piece of legislation. "However," she says, "the law seems to suit the reality in Japan, where so many young women quit work when they marry, and so few of them are even interested in this legislation." Surveys suggest this is a valid claim. According to an employment agency, Nihon Recruiting Center, two-thirds of Japanese women are not informed about the contents of the equal employment opportunities legislation.

Foreign observers, too, consider Japanese women somewhat responsible for the situation. Most Japanese women routinely leave work for marriage, they point out. Wingate Packard, an American editor of the English-language newspaper The Japan Times, says she is frustrated by the timid and even indifferent attitudes young Japanese women show toward their own circumstances. "They are socialized to stay at home," she observes. "Society in and out of school is responsible for 'teaching' young girls their preference to stay at home." She notes that the Japanese government offers an excellent education to all Japanese children. "If they are determined not to employ women on equal terms with men, why do they offer the girls (the same curriculum) as the boys?" she asks rhetorically.

Asako Kobayashi, a part-time computer software engineer, points out that a new law is not all that is needed to support working women: "Most of all," she told JEI, "a child-care system is vital in order to continue working after marriage. Several days a week I have to hire a baby sitter after the daycare center closes. I worry constantly about what my colleagues think when I rush home to the children."

Deliberation in the Diet

On June 26 the Diet began deliberating the Equal Opportunity Law. Although the government is very eager to secure the law's passage, success depends on the resolution of various obstacles. First, the Japan Socialist Party (JSP) and other opposition parties, backed by feminist and labor organizations, oppose the statute and are preparing to submit their own version. Strong objections have been raised to relaxing the ban on late-night and overtime work from women who cite this as a necessary refuge from the workaholic mentality.

Second, the committee handling the law is simultaneously deliberating the highly controversial medical insurance reform act. It has been suggested that because the medical insurance bill is a top priority for the Liberal Democratic Party (LDP), there is a chance that a political maneuver would be worked out so that the LDP would slow its campaign for women's equality (making its defeat appear to be the opposition's fault), in order to pass the unpopular medical insurance act. The reform of this program is said to be crucial for Prime Minister Yasuhiro Nakasone's re-election prospects.

LDP Dietman and member of the Social and Labor Affairs Committee Bunmei Ibuki is pessimistic about the equal opportunity legislation's chances in the face of the opposition parties' demands for compulsory enforcement. With only one month remaining before the Diet session ends on August 8, the balance between those elements supporting the new law and the government's difficulties in the Diet suggests that the outcome is still uncertain.

Moves Toward Equal Opportunity

Whether the new law passes or not, a certain momentum can already be seen. Labor Ministry data indicate the direction of change:

o In 1977, 91.5 percent of Japanese companies excluded women from certain job categories. In 1981, this number had fallen to 83.4 percent.

o In 1977, only 29.7 percent of all firms reported identical training programs for men and women. In 1981, 40 percent said they provided women with the same training as men; 39.3 percent had dual training programs; and 20.7 percent gave women no training.

o A large 52.3 percent of firms did not promote women in 1977 -- by 1981, this group had contracted slightly to 45.1 percent

o While 23.1 percent of all firms required women to retire at a younger age than men in 1977, the number had contracted to 18.5 percent by 1983.

Ironically, though, the women who are most enthusiastic about equal opportunity legislation profoundly disagree with the present version of the bill and are its most vehement detractors. This group is campaigning for an initiative that penalizes employers that discriminate against women, and that retains the existing regulations restricting overtime work for women. Kazue Suzuki, an editor of the Reader's Digest, explained to JEI: "I am afraid that the bill in the Diet might force women to take relatively inferior part-time jobs." Professor Higuchi concurred with Ms. Suzuki when he said, "Equal opportunity in employment should be considered only in the context of wide-ranging improvements in the employment system. Even though the new legislation seems to focus on talented or specialized women, we should not forget those increasing part-time employees who work under inferior conditions which are caused by their status. They are considered part-time, but most of them work far longer than the 35 hours a week which the government categorizes as 'part-time'."

Another Reader's Digest editor, Mami Fukae, who is a member of a feminist group, contends that "We don't need an unsatisfactory law. If the defects of the bill sent to the Diet can't be corrected, then it should be killed. In this case the Japanese government and business leaders would be open to more severe external criticism than if Japan were to pass cosmetic legislation and succeed in meeting the deadline to ratify the U.N. Convention." Ironically, neither the United States nor Great Britain have ratified the Convention at this time.

Many women are skeptical of the current bill and at the same time optimistic about the momentum that it has generated. Ms. Ishihaya of Takashimaya also is quite positive about the progress in women's employment in spite of some reluctance from the business establishment. "More than half of Japan's population was born after World War II," she said. "The traditional establishments will become less and less powerful as the economic structure changes."

Even men who consider the legislation unnecessary stress the importance of providing equal employment opportunities for women. Hiroshi Kitamura, director of labor affairs for Nikkeiren, told JEI, "I personally respect (the concept). My point is that it should not be introduced so rapidly as to cause friction in the employment system. That is why I have opposed drafting strong enforcement into the legislation." Although he is opposed to the bill, Mr. Kitamura has been speaking to business executives about the measure's legal ramifications, assuming that the trend toward equalization is irreversible and that the Diet will pass it sooner or later. He also expects wide-ranging changes in Japan's labor structure and less and less adherence to the "lifetime employment" system.

Often these days readers of Japanese newspapers see comics that describe various incidents caused by the rise of women in power. Asahi Shimbun cartoonist Sato Sanpei appears about once a week with his character, an ordinary salaried man, Fuji Santaro, who has a hard time with his female boss. These comics reflect the increasing concern of Japanese men in the face of growing resistance from women who used to obediently serve tea at least three times a day and go out to buy cigarettes with a smile. And they find more and more severe competition from women, who previously were not expected to hold ambitions for positions higher in corporate status than all those Santaros.

But the increasing numbers of working women in Japan demand more rational employment practices and explicit assessments of each individual's abilities. This challenge requires that Japan's traditional seniority system and lifetime employment commitment be altered.

For further information, contact Hiroshi Ando.

The views expressed in this report are those of the author and do not necessarily reflect the views of the Japan Economic Institute.

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APPENDIX

1947 -- Japan enacted the Labor Standards Law prohibiting employers from discriminating against women or paying women lower wages than men.

1963 -- The U.S. Equal Wage Law was enacted.

1964 -- The U.S. Civil Rights Act provided equal employment opportunities for men and women.

1967 -- The General Assembly declared the Abolition of Discrimination Against Women.

1969 -- Japan set up a Labor Ministry advisory group to review the Labor Standards Law.

1970 -- Great Britain enacted the Equal Wage Act.

1975 -- Great Britain passed the Act of Prohibition Against Sexual Discrimination.

1978 -- Legislation prohibiting discrimination against pregnant women passed the U.S. Congress.

1978 -- Japan's Labor Ministry issued a Recommendation for Equal Opportunity for Women in Employemnt.

1980 -- Japan signed the U.N. Convention for the Decade of Women in Copenhagen. A task force of 10 agencies on women's issues was named to complete all the legal adjustments necessary for Japan to ratify the Convention before 1985 when the U.N. decade ends.

1981 -- The Convention ratified by 20 nations.

1983 -- Labor Ministry issued report advising the abolition of discrimination against women in the workforce.

1984 -- "Equal Opportunity in Employment for Women" bill submitted to Diet.

Table 1: Women Employees by Industry, 1967 and 1982

Industry	Number 1967	Number 1982	Distribution 1967	Distribution 1982	Share of Total Employees 1967	Share of Total Employees 1982
Agriculture, Forestry and Fisheries	180,000	120,000	1.8%	0.8%	45.6%	47.6%
Mining	20,000	10,000	0.2	0.1	8.0	10.0
Construction	440,000	600,000	4.4	4.2	15.0	14.2
Manufacturing	3,620,000	3,920,000	36.0	27.7	34.2	34.1
Wholesale and Retail Trade	2,210,000	3,740,000	22.0	26.4	41.0	43.0
Finance, Insurance and Real Estate	570,000	890,000	5.7	6.3	44.2	47.1
Transport, Communications and Utilities	370,000	430,000	3.7	3.0	12.0	23.6
Services	2,390,000	4,120,000	23.8	29.1	48.3	48.6
Government	250,000	330,000	2.5	2.3	15.9	16.9
Total	10,050,000	14,160,000	100.0	100.0	32.7	34.6

Source: Prime Minister's Office, Statistics Bureau, Annual Report on the Labour Force Survey

Table 2: Employment Among Married Women, by Income Group*

	Share of Total		Increase
	1979	1982	1979-82
Class I	49.4%	53.0%	3.6%
Class II	45.2	49.9	4.7
Class III	40.4	45.8	5.4
Class IV	37.9	45.1	7.2
Class V	30.7	34.8	4.1

*Households (with employed workers) are classified from I to V. The bottom one-fifth of households by earnings is Class I. Class V has the highest income.

Source: Prime Minister's Office, Statistics Bureau, Basic Research on Employment Structure.

Table 3: Ratio of Part-Time Employees to Total Employed Women

	Total Number of Employed Women (millions)	Ratio of Part-Time Workers
1960	6.4	8.9%
1965	8.5	9.6
1970	10.7	12.2
1975	11.3	17.4
1980	13.2	19.3
1982	13.9	20.5

Source: Prime Minister's Office, Statistics Bureau, Labor Force Survey.

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JEI

REPORT

NO. 27B
July 13, 1984

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United States Ups Foreign Fishing Quotas

The third installment of foreign fishing quotas announced by the State Department at the beginning of July contained some good news for hard-pressed Japanese fishermen -- an unexpected increase of 105,800 tons in the permissible North Pacific catch. The Japan Fisheries Association (JFA) was cheered by the announcement, particularly since 1984's first two installments had been reduced below the previous year's figures. The increase seems to signal a shift in policy by the Reagan administration.

According to the State Department, Japanese fishermen will be allowed to catch an additional 385,100 tons of all species within the 200-mile U.S. fishing conservation zone (FCZ). July's figure represents about 25 percent of Japan's total annual quota and is the final scheduled increment for the year. This most recent release brings Japan's total allocation up to 1,101,155 tons, including January's 485,600-ton figure (50 percent of the total annual quota) and April's 222,800 tons (the remaining 25 percent). The increase is not

The expansion in Japan's fishing quota may be part of this strategy. A State Department official said that the increase was based on a technical recommendation from the NMFS that there was an excess of fish stocks. The official said that the administration is committed to keeping the whaling and fishing quota issues separate, although he intimated that unless the upcoming U.S.-Japan whaling talks produce results, the United States might reconsider linking the two issues. Officials at JFA credit increased Japanese support of the U.S. fishing industry as the reason for the quota increase. But such considerations have not tended to sway U.S. decisionmakers, despite increased purchases from American fishermen this year. The government's success in keeping the two issues separate will test its commitment to smooth bilateral relations.

Jon Choy

U.S. Corporate R&D Spending Continues to Outstrip Japanese Funding

U.S. government policymakers and business executives worried that American manufacturers are rapidly ceding ground to their Japanese rivals in product and process technologies should be heartened by a pair of recent surveys of corporate research and development spending in the United States and Japan. Business Week's 1983 R&D Scoreboard and a companion FY 1983 review by the Nihon Keizai Shimbun suggest that U.S. producers continue to hold their own in the technology race. The 800 publicly held companies surveyed by Business Week allocated $39.2 billion for R&D in 1983 compared with expenditures of Y2,940 billion ($12.4 billion at FY 1983's average exchange rate of Y236.34=$1.00) in the 1983 accounting period by the 580 publicly traded corporations sampled by the Japanese newspaper.

Corporate funding of R&D in the United States was up by a healthy 9.8 percent last year as big spending gains by computer manufacturers, suppliers of software and computer services, semiconductor makers, electric and electronics companies, chemical producers, pharmaceutical houses and telecommunications equipment firms more than offset recession-trimmed budgets in industries like aerospace, oilfield equipment and services and farm and construction machinery. This expansion was not a one-shot increase. Over the 1979-83 period, industrial R&D spending climbed by roughly three-fifths -- or slightly ahead of inflation -- even though profits took a beating during these five years. The renewed commitment of American companies to the development of new technologies or the application of existing ones was also illustrated by a higher ratio of R&D expenditures to sales. After remaining stuck at the 1.9 percent level in the late 1970s, R&D spending as a percentage of sales hit 2.6 percent in 1983.

While still dwarfed by U.S. expenditures, R&D spending by Japanese industrial corporations also increased by a hefty margin over the five years through March 1984 -- perhaps by a factor of two, including a 13.4 percent rise in FY 1983 by Nihon Keizai's calculations. R&D budgets, in fact, expanded at a faster pace during this period than sales, in part because of rapid advances in technology and escalating research costs. Japanese research directors add, though, that the renewed emphasis on R&D in the United States and the growing reluctance of American corporations to license cutting-edge technologies to

Top Ten Japanese and American Firms in R&D Spending

		R&D Spending (billions of yen*)		Percent of Sales	
	Japanese Companies	FY 1979	FY 1983	FY 1979	FY 1983
1.	Hitachi, Ltd.	Y99 ($431)	Y186 ($787)	5.8%	7.0%
2.	Toyota Motor Corp.	104 (453)	175 (740)	3.7	3.6
3.	NEC Corp.	43 (187)	160 (677)	6.0	11.0
4.	Nissan Motor Co., Ltd.	90 (392)	140 (592)	3.3	4.0
5.	Toshiba Corp.	69 (33)	125 (529)	4.8	6.2
6.	Matsushita Electric Industrial Co., Ltd.	50 (218)	109 (461)	2.9	4.0
7.	Honda Motor Co., Ltd.	38 (165)	100 (423)	3.6	5.4
8.	Fujitsu, Ltd.	31 (135)	99 (419)	6.1	10.0
9.	Mitsubishi Electric Corp.	43 (187)	82 (347)	4.0	5.2
10.	Mitsubishi Heavy Industries, Ltd.	38 (165)	68 (288)	2.8	3.6

		R&D Spending (in millions of dollars)		Percent of Sales	
	American Companies	1979	1983	1979	1983
1.	General Motors Corp.	$1,950	$2,602	2.9%	3.5%
2.	International Business Machines Corp.	1,360	2,514	5.9	6.3
3.	Ford Motor Co.	1,720	1,751	4.0	3.9
4.	United Technologies Corp.	545	971	6.0	6.6
5.	E.I. duPont de Nemours & Co.	415	966	3.3	2.7
6.	General Electric Co.	640	919	2.9	3.4
7.	American Telephone & Telegraph Co.**	362	862	0.8	1.2
8.	Eastman Kodak Co.	459	746	5.7	7.3
9.	Exxon Corp.	381	692	0.5	0.8
10.	Xerox Corp.	376	555	5.4	6.6

*The data for Japanese companies were converted to millions of dollars at FY 1979's average exchange rate of Y229.69=$1.00 or at FY 1983's average exchange rate of Y236.34=$1.00.

**Excludes expenditures by Western Electric Co., Inc.

their competitors in Japan have also spurred spending, which expanded as a percentage of sales from roughly 1.8 percent in FY 1979 to 2.3 percent in the fiscal year just ended.

Companies in the electric equipment and electronics field (including makers of computers and other office equipment, semiconductors and telecommunications equipment as well as manufacturers of consumer electronics products, appliances and heavy electric machinery) and in the automotive industry have traditionally financed over half of Japanese corporate R&D outlays. A glance at Nihon Keizai's list of the top ten firms in R&D spending (see accompanying table) highlights the pivotal role of these two groups of companies. While the R&D leaders in the United States span a range of industries, nine of the ten biggest Japanese spenders are either electronics makers or automotive manufacturers.

What is arresting about the comparative R&D table is how fast most of the Japanese leaders have increased spending in relation to sales. NEC Corp. and Fujitsu, Ltd., both manufacturers of telecommunications equipment, computers and semiconductors, are the standouts on this score, but it is also hard to find big American corporations that have matched the jumps chalked up by Hitachi, Ltd. and Toshiba Corp., Japan's two biggest general electric equipment producers. At the same time, though, leading U.S. businesses continue to outspend their Japanese counterparts by a wide margin. General Motors Corp. alone budgeted more money for R&D in 1983 than Japan's eleven automotive manufacturers spent in total. Similarly, the combined R&D outlays of the three top Japanese computer makers -- Fujitsu, NEC and Hitachi -- only equaled three-quarters of the amount International Business Machines Corp. earmarked for research.

Susan MacKnight

Congress Adopts DISC Alternative

As part of the omnibus Deficit Reduction Act of 1984, Congress agreed to adopt the administration-supported Foreign Sales Corporation (FSC) measure to supplant the Domestic International Sales Corporation (DISC). DISCs have been very successful at encouraging exports. According to the Treasury Department, they added between $7 billion and $11 billion to U.S. exports in the July 1980-June 1981 period. Their continued use was blunted, however, by a 1976 decision by the General Agreement on Tariffs and Trade (GATT) that DISCs were an illegal export subsidy, leading the administration to propose the FSC alternative in 1983 (see JEI Report No. 18B, May 4, 1984).

In order to qualify for FSC status, a corporation must:

- Be organized outside the U.S. customs territory.
- Have no more than 25 shareholders at any time during the year.
- Have no preferred stock outstanding at any time during the year.

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JEI

REPORT

NO. 28A July 20, 1984

JAPAN'S PROGRESS IN ALTERNATIVE ENERGY DEVELOPMENT

Summary

A recovering economy led to increased Japanese crude oil imports in FY 1983, reversing one of the major trends outlined in JEI's last energy report (see JEI Report No. 14A, April 15, 1983). The growth of alternative energy supplies and other major trends remained the same, however. The success of conservation and readjustment measures and lower growth prospects encouraged the Ministry of International Trade and Industry to revise downward its long-term energy demand and supply forecast again in 1983.

Lower oil prices contributed to the economy's positive price and production performances, but the drive to develop non-oil energy sources did not abate. U.S.-Japan energy cooperation also continued to broaden, and the year proved to be mostly friction-free in this area.

1983 Consumption

In calendar year 1983, Japan imported 1.3 billion barrels of crude oil -- 3.2 percent less than in 1982 and the fifth consecutive annual decline in imports (see Table 1). Imports accounted for 99.8 percent of crude oil supplies as domestic production crept back up to 3.1 million barrels. The refinery operation rate also showed marginal improvement, rising from 56.5 percent to 56.9 percent, and reaching as high as 74.6 percent during the year. The price of imported crude (c.i.f.) underwent a sharp decline from 1982's $34.66 per barrel, averaging $30.77 a barrel in 1983 but hitting $29.56 by year's end (see Table 2). Lackluster economic activity took the edge off of an unusually cold winter, and wholesale and consumer prices for petroleum products eased (see Table 3).

Imports of other energy sources painted a varied picture. Coal imports fell to 75.1 million metric tons, primarily because of an 8.2 percent drop in coking coal. Imports of naphtha rebounded strongly (rising 45.5 percent) as domestic refiners cut back their output by 16.6 percent despite an overall sales increase of 4.9 percent. Liquefied natural gas (LNG) imports rose 7.3 percent, while imports of liquefied petroleum gas (LPG) dropped 8.5 percent (see Table 4).

The pattern of industrial consumption continued to shift: consumption of heavy fuel oil by the manufacturing sector fell 8.1 percent in 1983; light oil use rose 6.5 percent; and coal and electricity demand dropped, primarily because of stagnant steel and construction activity, although improved efficiency also pushed these figures down (see Table 5).

Electric utilities continued to up their output while shifting from oil to coal and alternative supplies for inputs (see Table 6). There was a significant jump in the amount of hydroelectric power generated, while power from nuclear and thermal (fossil fuel and geothermal) plants showed minimal increases.

Household consumption (Table 7) also began to move away from solid fossil fuels in favor of electricity (up 7.1 percent in 1983), LPG (increasing 3.1 percent) and propane (a 4.4 percent gain).

New Long-Term Energy Outlook

In August 1983, an advisory panel to the Ministry of International Trade and Industry (MITI) revised its 1982 estimates of long-term energy demand in response to the changing energy efficiency of the economy and slower economic growth. The most recent projection is summarized in Table 8, along with actual consumption figures for fiscal year 1982 (April 1, 1982-March 30, 1983). The revised figures are significantly lower than the 1982 forecast: the projection for FY 1990 has been scaled back by 22 percent and the FY 2000 figure by 22.1 percent.

By categories, the new FY 1990 estimates show declines in coal of 29.4 percent; nuclear power, 26.1 percent; natural gas, 17.6 percent; hydroelectric power, 12.1 percent; geothermal power, 75 percent; alternative energy sources, 46.7 percent; and petroleum, 17.2 percent. A comparison of the revised and 1982 outlooks for FY 2000 demand reveal equally big reductions, with coal usage off 20 percent; nuclear energy, 31.1 percent; natural gas, 20.7 percent; hydroelectric power, 22.2 percent; geothermal supplies, 56.7 percent; other alternative energy sources, 30.8 percent; and petroleum, 12.1 percent.

The thrust of the new forecast is a slower shift from petroleum and a sharply reduced role for non-fossil fuel energy sources. Petroleum's share of total energy supplies is now pegged at 52.5 percent in FY 1990 and 42 percent

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in FY 2000, up slightly from 1982's projected rates of 49.1 percent and 38 percent, respectively. The use of coal has also been revised upward. Nuclear, geothermal, hydroelectric and alternative sources of power have been downgraded for a variety of reasons: increasing local opposition to new nuclear power plants; fewer suitable hydroelectric sites; and the decreasing cost competitiveness of alternatives such as LNG and synthetic fuels, among others. Despite scaled-back expectations, the drive to bring online new sources of energy and improve conservation measures continues.

Government Policy on Energy

A three-pronged strategy is presently being pursued by the government to strengthen Japan's energy security. While taking into account cost and other factors, the basic outline of the plan includes:

- A secure and stable supply of oil.

    Strengthened relations with oil-producing countries.
    Resource development by Japanese companies.
    Promotion of oil stockpiling.
    Structural reform of industry.

- Promotion of the development and use of alternative energies -- nuclear power, coal, LNG and new energy sources.

- Energy conservation.

    Public information activities and campaigns aimed at the industrial, commercial, residential and transportation sectors.
    Investment in energy-saving equipment.
    Development of energy conservation technology.

The first prong of the plan contains two interesting points -- strengthening relations with oil-producing countries and promoting structural reform of industry. The commitment to maintaining good relations with oil suppliers has put Japan in an awkward position at times. Most recently, the Iran-Iraq war has jeopardized the country's energy security. Japan gets nearly three-quarters of its oil from Persian Gulf states. Although Tokyo has stressed its neutral stance with both countries and has embarked on a campaign to end the conflict, neither effort has had much effect on the war. The unusually intense diplomatic activity, however, underlines Tokyo's commitment to this policy (see JEI Report No. 22B, June 8, 1984).

Equally daunting is the task of restructuring domestic industry to meet the new conditions of reduced growth and lower oil prices. In February 1984, the Japanese Petroleum Council submitted to MITI a plan to enhance the competitiveness of the large oil companies by forcing a reduction of refining capacity and a regrouping of market shares. The plan calls for a reduction in the number of oil companies to six or seven (there are at present 13), with one or perhaps two firms holding a 25 percent market share and the remaining companies about 10 percent each. To accomplish this, the plans call for preferential distribution quotas and subsidized loans for new refinery construction. Smaller firms will undoubtedly come under pressure to merge with larger ones in an attempt to end the fierce price wars that have pushed eight petroleum corporations into the red over the last six months. While MITI insists that the plan to reduce "excess competition" is completely voluntary, the oil refiners insist that there is nothing voluntary about it.

Tokyo has largely accomplished its other energy security goals. Current petroleum reserves are equivalent to 120 days of consumption and reserves of LNG are being built up from 25 to 45 days. Japanese energy companies remain active in exploration in many areas of the world, including China, Canada and Australia.

Alternative Energy Development

Japan's alternative energy program, the second prong of the government's plan, is beginning to yield commercial applications. The major emphasis remains on nuclear power development and coal conversion projects, although strides are also being made in increasing the use of geothermal and solar power. Most interesting, however, are recent developments in exotic energy technologies, including biotechnologic sources, wind power and hydrogen power.

Nuclear Power -- Commercialization is underway in three areas: construction of an advanced thermal reactor (ATR); operation of an uranium enrichment plant using domestic technology; and construction of a nuclear fuel recycling plant. Based upon the "Fugen" prototype ATR in operation since 1979, a demonstration reactor is slated for construction in the late 1980s. Geological and environmental surveys are now in progress for the reactor, which will use heavy-water modulation and pressurized light-water boiling/cooling technology. This variety of reactor should yield improved fuel efficiency and easier maintenance.

An uranium enrichment pilot plant using the centrifuge separation technique has been in operation since 1979. The government-funded Power Reactor and Nuclear Fuel Development Corp. is now working with the private sector to construct a full-scale commercial plant that will go into operation within the next few years. The field should develop rapidly thanks to a U.S.-Japan agreement to allow private Japanese companies to build enrichment plants whose output would be mixed with U.S.-supplied enriched fuel. This unusual exception to U.S. nuclear non-proliferation laws, which was announced last January, will allow enriched uranium used in Japanese power plants to contain up to 30 percent domestically produced fuel, in contrast to previous rules barring any combinations of American and foreign products.

The Japan Atomic Energy Service Co., Ltd. is planning to open a second fuel reprocessing plant in 1985 to augment the Tokai reprocessing plant that experienced a breakdown in February of last year. The Federation of Electric Power Companies has also announced that it will construct a reprocessing facility on the Shimokita peninsula in Aomori Prefecture. This month, an advisory panel called for construction of reprocessing capacity equal to one-half of Japan's spent fuel output (800 tons) by the year 2000 to reduce its dependence on the United States. The reprocessing issue has caused some problems between the United States and Japan, primarily because of strict U.S. laws. While progress has been slow, negotiations are continuing.

Research and development efforts for a fast-breeder reactor took an interesting twist when Washington plumbed Tokyo's interest in purchasing parts of the defunct Clinch River fast-breeder reactor project. Despite obvious interest, the Japanese stressed that many technical factors had to be discussed before any decision could be reached. In the meantime, construction of the prototype "Monju" fast breeder is continuing.

Progress toward nuclear fusion took an important step forward this month when the Japan Atomic Energy Research Institute successfully generated a powerful magnetic field using superconductive elements. The field strength of 11 teslas (1 tesla is approximately equal to 27,000 times the strength of the earth's magnetic field) approaches the institute's 12 tesla goal, which is envisioned as sufficient for use in a commercial power plant. Installation of a magnetic toroid-type (Tokamak) reactor is moving toward its 1986 completion date without major problems.

Technology is not the major obstacle hindering increased use of nuclear power, however. Political problems pose a much larger hurdle. Concern over safety is still strong, and the growing problem of waste storage is prompting public reconsideration of ambitious government plans. The magnitude of those ambitions was made clear in the new ten-year power development plan announced July 5, 1984. In it, the number of nuclear plants is expected to double to 52 by the end of FY 1993 and nuclear power as a share of total generating capacity is forecast to rise from the current 20 percent to 33 percent or 44.73 million kilowatts. Winning public support for the large increase will be contingent on the government's success at solving the nuclear waste disposal question. A plan to bury low-level radioactive waste in ocean seabeds is Tokyo's present idea, but it requires approval from Japan's neighbors.

Coal -- Coal will play an increasingly important role in Japan's energy mix, both as a solid fuel (its share of total generating capacity will rise from the current 8 percent to 12 percent by 1993) and as a liquid or gaseous fuel. On July 2, 1984, nearly two dozen private firms, including Nippon Steel Corp., Hitachi, Ltd., and Mitsubishi Heavy Industries, Ltd., announced that they will form a joint venture in September to construct a pilot coal liquefaction plant using the U.S.-developed solvent refined coal (SRC) process. The Y118 billion ($502 million) project, which will receive Y100 billion in government funds, will be capable of converting 250 tons of coal a day into liquid fuel by 1990 and its success will determine the fate of larger projects. A second liquefaction experiment is being conducted in cooperation with Australia. The tiny pilot plant will go onstream next March and will convert into heating fuel 50 tons a day of inexpensive brown coal. If high-sulphur-content problems can be overcome, the technology could well contribute to the country's energy security.

Gasification pilot plants are also in operation. Under MITI's Sunshine Project, the problems associated with processing different types of coal are being explored at a high-caloric gas plant with a capacity of 7,000 cubic meters a day and a low-caloric gas plant. A steam/gas generating turbine system is being developed to run on the low-caloric gas. Under present price estimates for petroleum, these liquid and gaseous alternatives will become competitive by the end of the century.

Solar Energy -- Commercialization of solar energy technologies is one of the main thrusts of the Sunshine Project. Attention is being devoted to mass production of photovoltaic units by the 1990s. Technologies based on crystalline silicon are relatively well developed and are employed on a small scale by an increasing number of businesses as well as homes. Projects aimed at lowering the cost of producing the silicon substrate and improving the conversion efficiency of the cells (to perhaps as high as 20 percent) are the major goals at present. The development of commercially applicable amorphous silicon (a-Si) technologies is receiving the greatest attention at present.

Amorphous silicon solar cells have several advantages -- lower cost, larger cell sizes, less silicon, and simpler production -- over crystalline cells. But they also have major drawbacks -- lower conversion efficiency, a shorter useful life, and lower reliability. The Sunshine Project is providing some funds to develop a-Si manufacturing techniques at a number of Japanese companies. Kyocera Corp. has developed an a-Si cell with an inexpensive ceramic substrate that offers improved durability and lower cost and has demonstrated efficiencies as high as 7.1 percent for a 1 square meter cell. Sumitomo Electric Industries, Ltd. is developing multiple layer a-Si cells that promise to match current crystalline cell efficiencies (14-15 percent). Sanyo Electric Co., Ltd. is focusing on advanced a-Si production techniques which could yield a one-step continuous casting process. Mitsubishi Electric Corp. is developing large cell modules with a ten-year life span and an average 85 percent reliability. Finally, Fuji Electric Co., Ltd. is trying to develop manufacturing techniques for extremely large (12 square meters) a-Si cells.

Research on wet solar cells (utilizing an aqueous electrolyte) and heterostructural cells is being promoted, as are studies of new cell materials (gallium-arsenide, timonium, indium, cadmium and zinc), improved durability, and reliability. Pilot plants that rely on solar thermal power generation round out the development of solar energy.

Geothermal Energy -- Current generating capacity from geothermal sources stands at 215.1 megawatts distributed among nine plants, just three of which have a capacity of 50 megawatts or more. Geothermal output should rise by nearly a factor of ten by 2000 and its share of the total energy supply should jump from 0.1 percent to 1 percent. While the basic technology is well-proven, problems of site accessibility hamper more rapid development. It is possible that this obstacle could abate if the government's plan to distribute new industries geographically leads to increased demand closer to geothermal sites.

In the meantime, development is proceeding on the utilization of hot water generated in the production process as well as on drilling technologies. Hot-water heating of greenhouses and buildings is one possibility. More interesting is the development of "binary technology," which would use the hot water to produce high pressure vapor to power turbines. When freon or isobutane is mixed with the hot effluent, it vaporizes energetically to drive a generator. The process could improve the competitiveness of this already cost effective alternative.

Exotic Sources -- Under this rubric the government encourages development of marginal energy sources such as wind power or infant technologies like artificial photosynthesis. Monetary support for these projects is usually small, but enough to help a company develop viable technology or build a basic research foundation.

Wind power equipment will be sold for the first time by a Japanese company this year if Toyo Menka Kaisha, Ltd. and Mitsui Engineering and Shipbuilding Co., Ltd. can find customers. The two firms have developed a system capable of generating 10 to 50 kilowatts of electricity with wind speeds as low as 2 to 3 meters per second (4 to 6 miles per hour). While the system will be offered to customers in Japan, it is primarily intended for application in remote areas of third world countries.

Ocean thermal energy conversion holds great potential for the island nation, and the Japanese are watching closely a Department of Energy pilot facility in Hawaii. This process uses the temperature differential between surface and deep ocean water to drive low-pressure turbines.

Creative biotechnology applications could produce significant new sources of energy. Biomass and gasahol projects have been in progress for several years, and commercialization is anticipated before the end of the century. Artificial photosynthesis promises to reduce the limitations presented by a finite supply of fossil fuels through direct production of raw fuel stocks. Its emergence could also enhance the efficiency of solar cells and lead to an economic method of extracting hydrogen fuel directly from water.

Hydrogen fuel technology is advancing rapidly. A demonstration hydrogen-fueled automobile has been tested, and a number of private companies are working on hydrogen fuel cell technology. The Hydrogen Energy Development Research Institute has already established service facilities in Japan to retool conventional automobile engines to run on hydrogen and has even formed a U.S. subsidiary to market its products here.

While the payoff from these programs may be small or distant, the government remains committed to diversifying and improving the country's energy mix. Planners are convinced that the combined effect of all these programs will greatly reduce Japan's dependence on foreign energy sources.

Conservation Efforts -- Conservation programs are in effect in almost all major firms, though the largest gains in savings are due to the shift away from energy-intensive manufactures. The government is in the process of developing a long-term plan to encourage energy conservation by consumers and producers.

Public Funding

Financial support from the government remains solid in an era of fiscal restraint -- the energy budget rose 0.9 percent for FY 1984 despite an overall budget increase of only 0.5 percent. The general account budget contains over Y156 million ($678,000) for nuclear energy development by the Science and Technology Agency; over Y5 million ($22,000) for MITI's energy technology R&D; Y3 million ($13,000) for MITI's Energy Resource Agency; Y440 million ($1.9 million) for work on crude oil substitutes; and Y5.7 million ($24,000) for geothermal development. Including energy expenditures by other government agencies, total outlays for energy countermeasures are expected to reach Y603.2

billion ($2.6 billion) during the current fiscal year, primarily for oil stockpiling costs and industry restructuring.

A large portion of this money is transferred to a special account for coal, oil and alternative energy development, which also receives nearly all of the revenues from various oil taxes. The special account for promotion of electric power generation funds the development of nuclear power and the oil-to-coal conversion projects, drawing its resources from utility taxes. Both accounts in FY 1984 reflect the effects of the recession and lower oil prices.

The budget of the New Energy Development Organization (NEDO) -- a semi-governmental agency set up in 1980 to promote research and development and the commercialization of alternative and renewable energy technologies -- increased 11.1 percent in FY 1983 (see Table 9). Its industry-related programs expanded to Y210 billion ($894 million), of which Y38 billion ($163 million) was devoted to new energy technologies and Y52 billion ($222 million) each to coal development and geothermal projects. Another Y91 billion ($389 million) was absorbed by coal industry restructuring and Y18 billion ($76 million) went to alcohol-fuel related projects. It is significant that even during a recession year, NEDO increased its energy development outlays in every case except coal development.

U.S.-Japan Energy Cooperation

Japan's dependence on imported petroleum and the escalation of the Iran-Iraq war in recent months has prompted Tokyo to meet with the United States to discuss oil-sharing contingency plans. The response to the Persian Gulf war has been quite rational, unlike earlier oil crises. Previous experience undoubtedly drove home the importance of cooperation among the industrialized countries. The oil glut and adequate emergency reserves have held down panic buying. It is clear that Japan and the United States will face any future oil squeeze with a stronger, more cohesive relationship.

Bilateral cooperation in the development of new energy technologies has also improved over the past year, with joint research programs in fusion energy as well as an engineer exchange program with the Tennessee Valley Authority (TVA). This program is an improvement of a 1982 technical cooperation agreement. Cooperation in the geothermal field is also in place, and a experimental station supported by the United States, Japan and West Germany has proved useful.

Stresses in the relationship do remain, however. The Export Administration Act still bars the export of Alaskan crude oil to Japan, and attempts by Alaska's congressional representatives to eliminate the restrictions have failed. Coal talks also proved to be a rough spot, even though President Reagan and Prime Minister Nakasone tried to smooth out the difficulties during the president's November 1983 trip to Japan. Japan's major coal buyers recently took the unusual step of coming to the the United States to meet with their American suppliers in an effort to improve relations, but the issue has become increasingly polarized in American circles. With demand slack and non-U.S. supplies abundant, the Japanese are naturally reluctant to increase their contracts for costly American coal. Americans, on the other hand, see the huge bilateral trade imbalance and are demanding that Japan buy more coal to help correct it.

Conclusion

The Japanese energy sector is in the midst of drastic changes and readjustments forced on it by design and by shifting economic factors. The country's basic energy vulnerability will continue for decades, though with decreasing severity as non-oil supplies grow. In its campaign to diversify and stabilize its energy supplies, Japan is likely to leave no stone unturned. Cooperation with other countries, including the United States, will play an important role in developing new energy technologies as well as coping with any shocks to world energy supplies. The country is now beginning to reap the benefits of positive adjustment programs and their pace will only accelerate in the coming years. Japan has set ambitious domestic and foreign energy goals and seems well on the way to achieving them.

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The views expressed in this report are those of the author and do not necessarily represent those of the Japan Economic Institute.

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Table 1: Japan's Crude Oil Imports, Production and Inventories

(in thousands of barrels)

	Production	Imports	Throughout	Rate of Operation	Inventories
1979	3,560	1,764,247	1,584,181	73.1%	216,516
1980	3,177	1,615,480	1,462,123	67.3	238,020
1981	2,868	1,448,203	1,321,353	60.9	226,302
1982	2,937	1,350,369	1,225,566	56.5	205,916
1983	3,095	1,307,024	1,183,136	56.9	185,756
January	296	111,742	113,094	61.4	189,184
February	270	101,313	100,049	60.2	177,202
March	289	126,096	101,759	55.3	190,914
April	239	97,709	104,622	58.7	176,806
May	233	93,193	91,989	50.0	170,012
June	239	97,187	77,731	43.6	179,668
July	226	96,055	94,269	51.2	171,478
August	236	106,178	93,863	51.0	168,566
September	252	96,243	86,915	48.8	167,012
October	262	120,334	101,483	65.8	172,510
November	264	120,328	102,357	68.6	175,988
December	289	140,644	115,000	74.6	185,756
1984					
January	264	114,057	114,887	74.3	174,523
February	n.a.	122,712	118,277	82.0	158,609

Source: Petroleum Association of Japan

Table 2: Price (c.i.f.) of Imported Crude Oil

	Volume (1,000 bbl)	Value ($millions)	Dollars per bbl	Yen per kiloliter
1979	1,768,767	$33,471	$18.93	Y26,236
1980	1,600,352	52,749	32.97	47,197
1981	1,430,623	53,343	37.29	51,387
1982	1,334,958	46,266	34.66	53,906
1983	1,302,055	40,063	30.77	45,923
January	123,152	4,148	33.94	49,717
February	103,842	3,531	33.96	50,632
March	113,843	3,791	33.30	49,427
April	108,131	3,346	30.94	46,437
May	92,230	2,720	29.50	43,679
June	100,112	2,940	29.37	44,052
July	93,230	2,751	29.50	44,524
August	92,425	2,723	29.46	44,971
September	107,691	3,187	29.60	45,572
October	103,672	3,072	29.64	44,021
November	118,579	3,536	29.82	43,934
December	144,985	4,286	29.56	43,664
1984				
January	111,344	3,283	29.48	43,375
February	118,982	3,518	29.57	43,533
March	137,423	4,053	29.49	42,454
April	109,098	3,191	29.25	41,425

Source: Ministry of Finance

Table 3: Wholesale and Consumer Price Indices for Petroleum Products (1980 = 100)

	Wholesale Index			Consumer Index		Retail Prices	
	Gasoline	Naphtha	Fuel Oil*	Gasoline	Propane	Gasoline**	Propane***
1979	76.5	57.2	49.5	80.1	75.0	Y124.9	Y3,585
1980	100.0	100.0	100.0	100.0	100.0	154.8	4,881
1981	106.2	99.7	118.0	102.6	103.7	157.1	5,079
1982	114.1	101.4	124.1	111.8	103.9	172.0	5,104
1983	111.1	123.1	116.3	103.2	104.6	156.0	5,134
January	117.5	104.1	126.2	113.9	104.0	176	5,128
February	117.5	104.3	126.2	111.4	104.0	172	5,128
March	117.5	104.3	126.2	108.7	104.0	168	5,128
April	108.9	91.4	16.2	103.8	104.2	159	5,131
May	108.9	91.4	126.2	101.9	104.4	155	5,131
June	108.9	91.4	126.2	100.3	104.7	153	5,131
July	108.9	83.8	126.2	98.3	104.8	150	5,131
August	108.9	83.8	102.5	96.1	104.8	146	5,141
September	108.9	83.8	102.5	100.8	105.0	154	5,141
October	108.9	88.0	102.5	102.0	105.2	155	5,141
November	108.9	88.0	102.5	101.4	105.1	154	5,141
December	108.9	88.0	102.5	99.8	105.1	150	5,131
1984							
January	108.9	88.0	101.8	98.7	105.1	149	5,131
February	108.9	85.4	101.8	97.8	105.1	148	5,131
March	n.a.	n.a.	n.a.	n.a.	n.a.	150	5,131

*Grade C heavy fuel oil. **Yen per liter. ***Yen per 10 cubic meters.

Sources: Bank of Japan and Prime Minister's Office

Table 4: Japan's Non-Crude Energy Imports

(in thousands of units)

	Coal (mt)	Naphtha (kl)	Fuel Oil (kl)	LPG (mt)	LNG (mt)
1979	58,214	10,365	9,491	9,491	13,926
1980	68,570	7,363	7,431	9,725	16,324
1981	77,959	7,241	7,404	10,097	16,833
1982	78,535	8,998	6,893	11,861	17,480
1983	75,124	13,096	7,276	10,857	18,748
January	6,133	1,074	485	907	1,601
February	4,866	773	529	983	1,367
March	5,955	916	681	995	1,611
April	5,923	941	491	800	1,147
May	6,307	1,177	395	985	1,332
June	6,221	1,158	489	975	1,264
July	6,172	933	527	903	1,553
August	7,133	1,219	647	685	1,649
September	6,348	1,197	1,014	735	1,708
October	6,542	1,167	667	859	1,659
November	6,783	1,175	749	1,032	1,885
December	6,741	1,366	602	997	1,971
1984					
January	6,551	1,347	565	1,066	2,181
February	6,558	1,390	600	773	1,954

Source: Ministry of International Trade and Industry

Table 5: Energy Consumption by Industry by Type

	Total oil equiv. (kl)	Fuels (kl)	Electricity (1,000 kwh)	Steam (mt)	Gasoline (kl)	Light Oil (kl)	Fuel Oil (kl)	LPG (mt)	Coal (mt)	Propane (1,000 cu m)
5a. Metal Mining										
1983	85,704	34,450	521,578	2,468	66	4,408	21,176	24	2,881	0
1st Qtr	22,906	9,961	134,324	842	11	882	6,820	6	279	0
2nd Qtr	18,658	6,329	123,158	541	20	903	3,490	6	712	0
3rd Qtr	20,235	7,433	128,826	412	17	959	3,967	6	896	0
4th Qtr	23,905	10,727	135,270	673	18	1032	6,899	6	994	0
1984										
1st Qtr	20,593	8,076	131,243	670	20	1017	4,335	11	871	0
5b. Coal Mining										
1983	663,943	592,695	719,746	0	12	11,270	4,330	0	586,524	0
1st Qtr	158,457	135,970	207,052	0	3	2,551	1,904	0	125,598	0
2nd Qtr	148,778	130,730	185,087	0	3	2,468	913	0	127,183	0
3rd Qtr	158,848	145,532	171,694	0	3	3,116	1,088	0	142,790	0
4th Qtr	197,860	180,463	155,913	0	3	3,135	425	0	190,953	0
1984										
1st Qtr	184,713	171,818	135,434	0	3	3,685	634	0	178,921	0
5c. Textiles										
1983	4,023,117	3,597,195	5,143,101	344,150	412	1,591	2,993,544	90,923	209,494	36,656
1st Qtr	1,047,271	928,678	1,155,105	118,900	103	383	786,915	21,980	47,144	7,429
2nd Qtr	908,597	865,374	1,322,380	83,139	101	383	724,768	22,044	44,327	10,109
3rd Qtr	1,021,717	885,257	1,347,885	70,731	105	380	743,773	22,262	47,190	9,302
4th Qtr	1,045,532	917,886	1,317,731	71,380	103	445	738,088	24,637	70,833	9,816
1984										
1st Qtr	1,107,109	983,639	1,245,361	77,072	96	420	798,139	26,034	68,462	10,099
5d. Pulp, Paper and Cardboard										
1983	10,480,791	9,337,339	11,570,067	590,881	477	1,808	4,705,871	39,491	971,472	15,358
1st Qtr	2,702,898	2,434,898	2,716,460	155,514	122	449	1,268,892	10,357	264,051	3,850
2nd Qtr	2,552,336	2,256,789	2,984,266	152,280	119	455	1,119,246	8,904	233,581	5,536
3rd Qtr	2,535,243	2,244,598	2,921,922	138,382	114	423	1,098,027	9,245	221,503	2,970
4th Qtr	2,690,314	2,401,054	2,947,419	144,705	122	481	1,219,706	10,985	252,337	3,002
1984										
1st Qtr	2,774,319	2,501,497	2,742,982	213,908	114	507	1,282,060	11,266	272,822	4,753
5e. Chemicals										
1983	57,216,628	53,663,496	35,000,370	25,001,640	641	148,347	5,919,405	2,499,865	13,736,636	39,381
1st Qtr	14,318,711	13,088,243	6,762,101	5,658,974	164	16,418	1,541,886	678,369	3,244,622	9,902
2nd Qtr	13,653,886	12,595,987	9,154,360	5,153,172	156	60,198	1,425,456	501,075	3,451,977	9,404
3rd Qtr	14,876,064	13,611,299	9,341,328	5,377,255	154	37,934	1,489,988	632,404	3,533,950	8,725
4th Qtr	14,367,967	14,367,967	9,742,581	5,812,239	167	33,797	1,462,075	688,017	3,506,087	11,350
1984										
1st Qtr	16,196,226	14,891,257	9,525,653	6,207,630	158	48,622	1,613,605	731,095	3,531,067	8,914
5f. Petrochemicals										
1983	10,671,359	10,252,467	2,862,854	2,309,131	622	2,715	3,659,233	170,909	0	43
1st Qtr	2,915,229	2,809,829	681,265	633,604	159	496	1,114,860	33,908	0	12
2nd Qtr	2,453,448	2,353,574	668,978	568,849	151	603	878,077	35,565	0	10
3rd Qtr	2,500,956	2,395,241	763,243	527,906	164	958	764,183	45,538	0	10
4th Qtr	2,801,726	2,693,823	749,368	578,772	148	658	902,113	55,898	0	11
1984										
1st Qtr	2,973,144	2,861,401	727,849	664,235	155	651	975,865	48,604	0	16

Table 5 - continued

	Total oil equiv. (kl)	Fuels (kl)	Electricity (1,000 kwh)	Steam (mt)	Gasoline (kl)	Light Oil (kl)	Fuel Oil (kl)	LPG (mt)	Coal (mt)	Propane (1,000 cu m)
5g. Rubber Products										
1983	421,307	511,718	1,372,386	442	563	126	256,992	9,883	0	8,140
1st Qtr	109,581	80,785	314,761	0	108	25	70,647	2,537	0	2,009
2nd Qtr	99,951	285,080	337,420	0	148	37	59,948	2,287	0	2,005
3rd Qtr	100,049	66,835	362,702	442	149	29	57,925	2,304	0	1,985
4th Qtr	111,726	79,018	357,503	0	158	35	68,472	2,755	0	2,141
1984										
1st Qtr	120,508	88,465	350,240	0	167	32	77,142	2715	0	2113
5h. Ceramics, Mineral and Glass Products										
1983	15,482,503	13,704,248	17,650,915	889,485	1,554	28,424	3,007,179	192,953	8,841,061	74,080
1st Qtr	3,851,741	3,406,708	4,298,155	252,677	411	6,956	723,746	51,673	2,130,041	16,177
2nd Qtr	3,766,424	3,330,893	4,005,142	183,705	394	6,816	737,637	47,181	2,114,575	16,991
3rd Qtr	3,839,295	3,411,167	3,923,939	214,477	371	7,164	777,798	45,824	2,194,552	18,749
4th Qtr	4,025,043	3,555,480	5,423,679	238,626	378	7,488	767,998	48,275	2,401,893	22,163
1984										
1st Qtr	3,633,007	3,191,379	4,355,255	274,389	346	6,729	782,611	50,174	2,159,973	21,493
5i. Iron and Steel										
1983	45,462,302	40,204,863	53,038,384	3,822,903	6,307	66,621	2,194,392	412,776	25,005,508	98,590
1st Qtr	10,996,218	9,706,519	13,144,789	906,218	1,487	17,822	570,391	111,274	6,010,547	25,315
2nd Qtr	11,152,201	9,831,906	13,307,969	800,322	1,702	17,106	527,998	99,817	6,052,492	20,007
3rd Qtr	11,424,961	10,152,018	12,807,441	905,873	1,586	15,211	535,090	99,128	6,377,992	25,688
4th Qtr	11,888,922	10,514,420	13,778,185	1,210,490	1,532	16,482	560,913	102,557	6,564,477	27,580
1984										
1st Qtr	12,083,344	10,723,888	14,745,412	1,285,683	1597	16,867	619,319	108,464	6,684,202	28,028
5j. Non-Ferrous Metal Ores and Manufactures										
1983	4,375,242	2,880,660	14,609,000	1,054,817	1,074	6,320	1,216,257	184,255	870,492	41,726
1st Qtr	1,113,383	760,031	3,543,701	678,471	263	1,550	342,282	48,636	209,217	9,574
2nd Qtr	1,027,525	652,356	3,630,200	124,201	267	1,554	261,844	44,285	201,124	9,803
3rd Qtr	1,077,577	703,368	3,607,840	116,371	271	1,547	291,102	43,557	228,108	10,882
4th Qtr	1,156,757	764,905	3,827,259	135,774	273	1,669	321,029	47,777	232,043	11,467
1984										
1st Qtr	1,155,894	763,064	3,974,317	152,413	295	1,741	320,570	48,905	231,702	12,117
5k. Machinery										
1983	13,676,921	10,778,350	31,682,053	0	103,466	66,043	1,456,965	347,114	889	377,619
1st Qtr	3,542,895	2,861,352	7,449,429	0	26,108	16,816	523,683	93,638	320	97,213
2nd Qtr	3,211,280	2,506,830	7,699,800	0	26,331	16,501	277,011	84,689	160	88,655
3rd Qtr	3,316,994	2,552,765	8,353,194	0	25,065	15,746	264,099	79,078	154	86,699
4th Qtr	3,605,752	2,857,403	8,179,630	0	25,962	16,980	392,172	89,709	255	105,052
1984										
1st Qtr	3,977,599	3,224,280	8,233,956	0	26,054	17,653	620,409	97,839	230	114,347

Source: Ministry of International Trade and Industry

Table 6: Japan's Electric Utility Output

(in billions of kilowatt hours)

	Total	Hydro	Thermal	Nuclear
1979	521.62	78.58	373.70	69.34
1980	514.05	85.15	346.90	82.01
1981	523.14	83.74	352.18	87.23
1982	522.48	77.34	343.30	101.84
1983	542.12	85.75	348.54	107.86
January	44.26	5.26	30.99	8.01
February	42.34	4.30	31.31	6.74
March	45.26	6.75	30.72	7.78
April	40.93	9.51	23.14	8.28
May	41.51	9.69	22.71	9.11
June	43.11	7.27	26.87	8.97
July	48.74	9.25	29.98	9.52
August	52.51	9.04	32.92	10.56
September	47.19	7.30	29.80	10.09
October	44.11	7.33	26.51	10.28
November	44.09	4.85	30.32	8.92
December	48.07	5.20	33.27	9.60
1984				
January	47.89	4.38	33.65	9.85

Source: Ministry of International Trade and Industry.

Table 7: Household Energy Consumption

	Electricity (mil kwh)	Propane (bil kcal)	Kerosene (1,000 kl)	LPG (1,000 mt)	Other Solids (1,000 mt)	Coal (1,000 mt)
1979	103,135	52,673	17,515	5,531	1,041.4	537.1
1980	103,199	56,007	16,725	4,984	1,212.3	578.5
1981	108,979	58,178	16,730	5,336	970.0	472.5
1982	110,051	58,201	15,275	5,295	1,173.1	512.8
1983	117,905	60,746	15,928	5,460	1,010.3*	509.2
January	11,212	7,131	2,248	533	73.2	43.2
February	10,250	6,942	2,246	474	76.9	46.0
March	9,511	6,706	2,083	528	91.8	46.1
April	9,986	6,251	907	497	70.0	25.4
May	8,794	5,015	607	426	81.6	22.4
June	8,090	3,848	524	398	91.4	35.9
July	8,971	3,739	510	373	88.6	39.4
August	10,913	3,373	552	363	88.5	46.5
September	11,719	3,086	641	332	91.3	63.1
October	9,501	3,637	920	393	96.2	49.3
November	9,021	4,816	1,645	498	68.1*	44.5
December	9,937	6,200	3,045	642	92.7*	47.4
1984						
January	12,071	8,087	n.a.	n.a.	78.0*	34.9

* Partial data only.

Source: Ministry of International Trade and Industry

Table 8: Long-Term Outlook for Energy Supply and Demand

Source	Units	FY 1982		FY 1990		FY 1995		FY 2000	
		Volume	Share	Volume	Share	Volume	Share	Volume	Share
Coal	mil. mt	94.5	18.5%	108.0	18%	128.0	18%	160-170.0	20%
Nuclear	gigawatts	17.3	6.9	34.0	11	48.0	14	62.0	16
Natural Gas	mil. kl	27.0	7.0	56.0	12	61.0	12	64-66.0	11
Hydroelectric	gigawatts	33.3	5.4	40.0	5	43.5	5	48.5	5
Geothermal	mil. kl	0.4	0.1	1.5	0.3	3.5	1	6-7.0	1
New sources	mil. kl	0.9	0.2	8.0	2	19.0	4	35-55.0	6-9
Oil	mil. kl	240.0	61.9	240.0	53	250.0	48	250-260.0	42
Total Supply	mil. kl	388.0	100.0	460.0	100.0	530	100.0	600.0	100.0

Quantity and Share of Energy Demand by Sector

(in millions of kiloliters)

	FY 1982		FY 1990		FY 1995		Average Annual Growth Rate
	Volume	Share	Volume	Share	Volume	Share	
Total Demand	375	100%	443	100%	500	100%	2.2%
Industry	218	58	240	54	261	52	1.4
Transportation	64	17	78	18	88	18	2.5
Household-Service	94	25	125	28	151	30	3.7

Source: Ministry of International Trade and Industry

Table 9: Outlays of the New Energy Development Oranization (NEDO)

(in billions of yen)

	FY 1982	FY 1983
New Energy Related Projects	Y105.8	Y100.4
Petroleum Substitution Technology	34.3	38.4
Coal energy	18.0	20.5
Solar energy	7.3	7.8
Geothermal energy	6.1	5.7
Other alternative energies	2.9	4.4
Coal Resource Development	61.3	52.3
Overseas prospecting loans	10.6	7.5
Oversease devlopment debt guarantees	48.1	42.1
Basic survey of coal resources	1.8	1.9
Other	0.8	0.8
Geothermal Resource Development	9.3	8.8
National survey of geothermal resources	2.5	1.9
Advanced research on geothermal power	3.1	3.2
Geothermal development debt guarantees	3.7	3.7
Development Related Expenditures	0.9	0.9
Coal Rationalization Program	75.3	91.3
Support for Domestic Coal Industry	73.9	90.1
Renovation of Coal Mines	1.4	0.9
Other	0.3	0.3
Alcohol Production Programs	7.6	17.9
Total	188.7	209.6

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Steel Wins Another Round in Fight for Import Curbs

Bethlehem Steel Corp.'s gamble that it could win broad import protection for American steel mills by going the trade-complaint route continues to pay dividends. On July 11, the International Trade Commission (ITC) recommended that President Reagan use his authority under Section 201 of the 1974 Trade Act to impose quotas, extra duties or tariff quotas for the next five years on roughly 70 percent of the steel entering the United States. The three commissioners voting for the complex relief package suggested, however, that protection be conditional on an industry commitment to improve competitiveness through steps like plant modernization, changes in management practices and labor concessions. The ITC's chairwoman and vice chairwoman, while supporting the thrust of the linkage concept, broke ranks with their colleagues on the remedy issue, just as they earlier did on the question of whether expanding imports were a substantial cause of the U.S. steel industry's problems (see JEI Report No. 24B, June 22, 1984). Since the industry's loss of sales and jobs was due chiefly to factors other than increasing imports, they argued, protection was not justified.

Japanese Economy Gathering Momentum

Paced by the strong growth of exports and capital spending, the Japanese economy has surpassed both government and private performance predictions for the first part of 1984. Since posting a strong 7.4 percent real growth rate in the first quarter of calendar 1984, the economy has continued to build up strength, though some weak spots persist. The bullish atmosphere is expressed by hikes in the growth forecasts by private financial observers and hints by the government that it may follow suit.

The strong first quarter performance pushed the economy's real growth for fiscal year 1983 (April 1, 1983-March 31, 1984) slightly above the government's forecast 3.4 percent (see JEI Report No. 25B, June 29, 1984). The economy moved out of the doldrums by latching on to the dynamic U.S. recovery. Japan recorded a record $13 billion trade surplus in the second half of calendar year 1983, and this strength shows no sign of abating.

In fact, in the first half of 1984, the country beat the 1983 trade surplus record by half a billion dollars. According to the Ministry of Finance, brisk exports of electronics and automobiles to the United States were the foundation for the new record. Imports overall rose 11.5 percent in the January-June period, topping $69 billion (c.i.f. basis), with strong increases in purchases of manufactured goods (up 24.4 percent) and petroleum products. Exports, however, jumped 18.9 percent to $82.5 billion (f.o.b. basis).

January-June 1984 trade with the United States recorded gains in both imports (up 13.6 percent to $13.4 billion) and exports (leaping 47.6 percent to $27.9 billion). The same situation characterized Japan's trade with the European Community (EC). Imports from the EC rose 17 percent to $4.6 billion, with a strong 14.2 percent gain in the manufactured goods category. The growth of exports to the EC was half this rate -- 8.6 percent to $9.7 billion, coming from solid gains in sales of office equipment, other electronic equipment and automobiles.

Clearly the external sector remains important to the Japanese economy, but domestic factors are increasingly responsible for generating growth. At the root of this trend is the strong expansion of corporate profits. Aided by low wage increases and steady price levels, business profits are projected to grow at double-digit rates this fiscal year. According to estimates by four major securities firms, ordinary profits will decline slightly in the first half of FY 1984 because of a seasonal slowdown in the oil and construction industries. If electric utilities and oil refiners are excluded from the profit projections, first half growth figures become positive. For the October 1984-March 1985 period, however, growth predictions turn upward even if oil and power companies are included (see accompanying table).

Strong profits are feeding into two channels that will make the major sources of economic growth internal. The first channel is increased capital investment. Optimism among business leaders is high, according to government and private surveys, and this is causing upward revisions in capital budgets. Not only are firms replacing aging equipment, but significant capacity expansion is being planned for the first time since the recent recession. Orders received by eight major machine tool makers have topped Y10 billion

($41.7 million) for the last three months, almost 40 percent greater than in the same period last year. High-technology companies seem to be leading the charge: NEC Corp. plans to up its FY 1984 plant and equipment outlays from Y110 billion ($458 million) to Y125 billion ($521 million), and Matsushita Electronics Corp. will spend Y110 billion ($458 million), Y32 billion ($133 million) more than originally announced. Other industries are following suit. Toyota Motor Corp., for example, has raised its investment program 25 percent to Y200 billion ($833 million), the first sizable increase in several years.

The upturn in investment is not only characteristic of large firms. Capital plans of small- and medium-sized enterprises show signs of growth after several periods of declines. According to a Bank of Japan survey, this group of companies, constituting by far the majority of businesses in Japan, now intend to increase their expenditures for new plant and equipment by 8.7 percent in FY 1984.

Unfortunately, this bullish investment mood does not extend to the basic materials sector. Steel and petrochemical firms are hesitant to sink more money into lines facing overcapacity at home and potentially stiff competition from abroad. Because of this dichotomy in investment attitudes, a return to the high growth levels seen in earlier years is unlikely.

The second channel for a revival of domestically generated growth will develop more slowly, but perhaps be of more lasting importance. High corporate profits will inflate workers' semi-annual bonuses, which can amount to up to one-third of an employee's annual income. This is particularly important given the restrained wage increases agreed to during this year's spring wage offensive (see JEI Report No. 24B, June 22, 1984). Current estimates for this summer's bonuses are running at levels 5 percent above last year's, boding well for private consumption -- the source of half of Japan's gross domestic product. While department store sales rose only 2.1 percent in May because of unfavorable weather conditions, retailers are optimistic that things will pick up when the bonuses are distributed. Consumer spending has been reviving over the last nine months, and if businesses' optimism can infect buyers, the economy should be able to sustain solid growth for a number of quarters.

All these factors have led major financial institutions to raise their FY 1984 growth forecasts (see following table). Predictions for real growth now range between 4.8 percent and 5.4 percent, with strong performances by capital investment and the external sector. (For details on earlier estimates, see JEI Report No. 3B, January 20, 1984.) Housing growth remains problematic, with projections varying from 2.9 percent to 8 percent. General agreement exists, however, that rates of inflation will be slightly accelerated. Also significant is a predicted rise of 2 percent to 8 percent in the value of the yen against the dollar, but current-account balances are seen as running above $30 billion by nearly all forecasters.

Weak spots still mar the economy's recovery -- the housing industry continues to sputter along, inventories are only slowly being rebuilt, and business failures remain at very high levels. However, based on the relatively weak yen, the external sector will continue to expand, especially if the U.S. economy continues to perk along. If domestic sales predictions by business are fulfilled and consumers open their pocketbooks, the trend toward greater

Corporate Profit Growth Predictions

(Profit growth rate excluding power and oil companies in parentheses)

Forecaster	FY 1983	FY 1984	
		First Half	Entire Year
Nomura Research Institute	47.4% (34.2%)	-5.9% (5.4%)	22.9% (20.9%)
Daiwa Securities Research Institute	46.4 (33.6)	-5.8 (7.0)	30.5 (21.9)
Nikko Research Center	42.3 (32.0)	-5.5 (1.6)	13.6 (16.5)
Yamaichi Research Institute of Securities & Economics	47.3 (33.3)	-6.0 (6.8)	20.7 (20.2)

Revised FY 1984 Forecasts for the Japanese Economy

(percentage change)

Forecaster	Real GNP Growth	Real Private Consumption	Real Capital Investment	Housing Investment	Consumer Price Increase	Current Account Balance*	Yen/$ Exchange Rate
Japan Economic Research Center	5.3%	4.2%	8.8%	5.2%	2.8%	$35.7	Y222
Mitsubishi Research Institute	5.3	3.2	9.1	2.9	3.5	35.9	236
Nomura Research Institute	4.8	3.4	7.6	3.5	2.6	34.9	230
Daiwa Securities Research Institute	5.0	3.9	7.9	8.0	3.0	29.9	220
Yamaichi Research Institute of Securities & Economics	4.9	3.3	7.2	2.9	2.7	32.3	226
Nikko Research Center	5.4	3.6	8.1	5.4	2.8	34.7	230
Toyo Trust & Banking Co.	5.0	4.2	7.5	4.5	3.0	31.7	n.a.
Economic Planning Agency (EPA) (12/83 estimate)	4.1	4.1	5.1	5.2	2.8	23.0	234

* in billions of dollars

capital expenditures and private consumption will convert the economy's motor from an external one to an internal one.

Jon Choy

Health Bill Produces Diet Deadlock

Proposed legislation in the Diet, Japan's parliament, to reform existing health insurance laws has produced a legislative deadlock that may force extension of the current session. Disputes over the bill have also delayed other major legislative items, including several government reorganization measures that have direct impact on U.S.-Japan trade relations.

The health insurance measure would require those covered to begin paying 10 percent of total medical expenses beginning in fiscal year 1985 and 20 percent in FY 1986 (see JEI Report No. 22B, June 6, 1984). Fierce criticism by the major opposition parties as well as qualms among some members of the Liberal Democratic Party (LDP) forced the Nakasone government to consider alternatives, but an acceptable resolution has not been reached. An attempt to introduce a cloture vote on lower house debate on the bill on July 5 was thwarted by shouting sessions by opposition party members on the Diet floor, further delaying a vote.

The bill has also incurred the opposition of many in the Japanese medical profession. They contend that increasing patients' shares of costs will ultimately reduce the ability to afford medical care.

Japan maintains a comprehensive medical insurance system that provides coverage to most of the working population virtually free of charge. The Nakasone government has made medical expenses a target of its budget control efforts during the last year. Although the absolute costs of the system are small in comparison with other budget items, they have been accelerating in recent years. With Japan's population aging rapidly, the Nakasone government may be more concerned at this point with establishing the principle of individuals covering an increasing share of their medical expenses than with reducing budget costs as much.

The depth of emotion surrounding this issue in Japan, however, is comparable to the sensitivity of debates about the revision of the social security system in the United States. It is difficult for any party to gain politically from the proposed legislation. Further, the emphasis placed on the bill by the LDP has led to its becoming a measure of Prime Minister Nakasone's leadership in the Diet and, by implication, his ability to secure re-election as president of the party later in the year. Finally, the furor in the Diet has delayed consideration of other significant measures that have drawn sharp attention from policymakers in Washington, including administrative reform bills affecting Nippon Telegraph and Telephone Public Corp. (NTT) and the Japan Tobacco and Salt Public Corp. (JTS).

The current session of the Diet was extended last spring until August 8. Failure to obtain relatively prompt action on the insurance bill

STATISTICAL SUPPLEMENT

Trade and Payments Data
(in millions of dollars unless otherwise indicated)

	1982	1983	January-May 1983	January-May 1984	March 1984	April 1984	May 1984
Japan's Balance of Payments							
Trade Balance	$ 18,079	$ 31,454	$10,065	$14,491*	$ 4,229*	$ 3,902*	$ 2,944*
Exports (f.o.b.)	137,663	145,468	56,856	66,986*	15,423*	14,284*	14,087*
Imports (f.o.b.)	119,584	114,014	46,791	52,495*	11,194*	10,382*	11,143*
Current Account Balance	6,850	20,799	5,310	10,236*	3,367*	3,524*	1,861*
Long-Term Capital (net)	-14,969	-17,700	-4,649	-14,084*	-1,968*	-4,423*	-3,724*
Overall Balance	-4,971	5,177	685	-6,078	-533	-1,785	-1,223
International Reserves (end of period)	23,262	24,496	24,484	25,323	25,109	25,321	25,323
Japan's Customs Clearance Trade							
Trade Balance	6,900	20,534	5,570	9,507*	3,200	3,109	1,854*
Exports (f.o.b.)	138,831	146,928	57,118	67,744*	15,569	14,449	14,282*
Cars	18,015	19,535	8,142	9,115*	1,449	2,305	2,021*
Steel	15,645	12,843	4,980	5,348*	1,267	1,048	1,100*
Imports (c.i.f.)	131,931	126,393	51,548	58,237*	12,370	11,340	12,427*
Crude Oil	46,274	40,063	17,568	17,600*	4,053	3,191	3,554*
Japan-U.S. Trade							
Trade Balance	12,151	18,181	5,662	11,494*	2,417	3,013	2,658*
Exports (f.o.b.)	36,330	42,829	15,256	22,723*	4,691	5,141	5,077*
Imports (c.i.f.)	24,179	24,648	9,594	11,229*	2,274	2,128	2,420*
Yen-Dollar Exchange Rate							
Tokyo Spot Market (end of period)	Y235.00	Y232.20	---	---	Y224.70	Y226.00	Y231.50
U.S.-Japan Trade							
Trade Balance	-16,778	-19,289	-7,724	-12,980	-2,730	-2,766	-2,903
Exports (f.a.s.)	20,966	21,894	8,105	9,554	2,028	1,872	1,987
Industrial Supplies	9,173	8,734	3,474	3,642	775	691	726
Food and Feed	4,971	5,555	1,991	2,513	513	527	509
Capital Goods	4,434	5,116	1,713	2,324	510	449	539
Consumer Goods	1,356	1,394	565	580	127	110	115
Imports (Customs)	37,744	41,183	15,829	22,533	4,758	4,638	4,889
Automotive Products	12,890	14,919	5,872	7,486	1,571	1,372	1,907
Industrial Supplies	6,795	5,391	2,115	2,989	602	645	565
Consumer Goods	7,842	8,296	3,097	4,322	944	962	843
Capital Goods	9,530	11,896	4,477	7,400	1,576	1,594	1,511

*Preliminary

STATISTICAL SUPPLEMENT

Japanese Economic Indicators

(percentage change from year-earlier period unless otherwise indicated)

	1982	1983	January-April 1983	January-April 1984	February 1984	March 1984	April 1984
Discount Rate (end of period)	5.5%	5.0%	5.5%	5.0%	5.0%	5.0%	5.0%
Outstanding Money Supply	9.2%	7.4%	7.6%	7.9%	7.8%	8.4%	7.7%
Industrial Production	0.3%	3.6%	-0.5%	11.0%	13.3%	10.3%	11.0%
Manufacturing Operating Rate	-2.9%	1.6%	-2.6%	9.2%	12.3%	7.5%	9.4%
Number of Bankruptcies	-2.8%	11.9%	4.4%	18.5%	22.8%	15.5%	17.4%
Residential Construction Starts	-0.5%	-0.8%	2.0%	2.6%*	2.8%	5.6%	10.9%*
Job Openings to Applications (ratio)	0.61	0.60	0.59	0.64	0.65	0.64	0.64
Nominal Wages	4.5%	3.5%	5.2%	4.4%	3.8%	5.2%	5.4%
Labor Productivity	1.0%	4.6%	-0.7.**	10.4%**	10.2%	n.a.	n.a.
Wholesale Prices	1.8%	-2.2%	-1.1%	-1.2%	-1.3%	-1.3%	-0.7%
Consumer Prices	2.7%	1.9%	2.0%	2.4%	2.9%	2.5%	2.4%
Yen-Based Export Prices	3.9%	-6.0%	-5.5%	-1.3%	-0.2%	-1.9%	-2.0%
Yen-Based Import Prices	7.9%	-7.8%	-2.0%	-6.4%	-6.8%	-6.4%	-5.7%

*Preliminary
**Through February of each year only.

For Japan's most recent GNP figures, see JEI Report No. 25B, June 29, 1984.

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JAPAN · ECONOMIC · INSTITUTE

JEI REPORT

NO. 29B
July 27, 1984

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Prime Minister Reiterates Support for Fiscal Austerity

Against a complex economic and political background, the debate over Japan's fiscal policy is growing more heated. With the national debt topping Y110 trillion ($458 billion) -- 39 percent of the country's total output of goods and services -- and with the construction industry still sluggish despite the strengthening recovery, the wisdom and need for a shift in fiscal policy are monopolizing the Diet's business. The situation is causing a backlog of legislation to accumulate. The debate pits those who are worried about the effects of national debt against those who are primarily concerned about sustaining the economy's recovery. Add to this the sensitive issue of expanding or cutting public works projects and the mixture becomes explosive.

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Competition in the common carrier market will be heavily influenced by the regulations recasting NTT as a semipublic corporation. At present it appears that NTT will gain significant independence from the government: it will be allowed to set revenue and expenditure plans without government approval, to enter the telecommunications peripherals business and to offer VAN services. The government also intends to release up to two-thirds of NTT's shares for public sale by 1990. The new NTT will not be allowed to let telephone service in unprofitable areas lapse, and it will be required to adhere to the purchasing accord with the United States (see JEI Report No. 5B, February 3, 1984).

The reforms would seem to unleash a giant. Whether this giant will prove itself agile and clever enough to compete in the free market will be tested by several competitors:

- Daini Denden Inc. or "No. 2 Telephone Company" is led by Kyocera Corp. and presents the most serious challenge to NTT. Daini plans to lay a fiber-optic system, and is looking into satellite and microwave service (see JEI Report No. 22B, June 8, 1984).
- The Mitsubishi Group is considering a venture aimed at providing businesses with integrated voice and data communications.
- Sanwa Bank, Ltd. is also exploring a similar service for financial institutions.

As more and more foreign and domestic companies build partnerships and lay plans, a strong vested interest in ensuring fair and equal application of the new laws will arise. This vested interest is the best guarantee that the Japanese government's actions will match its words when the laws go into effect next year. The U.S. government can certainly support companies' efforts to penetrate the tough Japanese market, but the companies themselves must carry most of the burden. The Japanese telecommunications market is on the verge of explosive growth and foreigners can be a part of it if they play their cards right.

Jon Choy

Japanese Foreign Investment Remains on Upswing in FY 1983

The 1980s have marked the coming of age for Japanese corporations as international investors. At the start of the decade, their foreign direct investments added up to a rather modest $31.8 billion. Over the four years through March 1984, however, Japanese businesses pumped almost the same amount of money into overseas equity holdings as they had in the previous 29 years, pushing cumulative outlays up to $61.3 billion. In FY 1983 alone, foreign direct investment jumped by nearly $8.2 billion, buoyed by the strong recovery of the U.S. economy and improved economic conditions in other areas of the world, healthier corporate balance sheets at home, and a dip in the dollar cost of investing overseas resulting from the rise in the yen's value. An increase of 5.7 percent over FY 1982's tally, the outflow of direct investment funds during the April 1983-March 1984 period was second only to the level hit in FY 1981, when the start of several big resource development projects and a large

Japan's Foreign Direct Investment by Country, FY 1979-FY 1983

(in millions of dollars)

	FY 1979	FY 1980	FY 1981	FY 1982	FY 1983	Total March 31, 1984
United States	$1,345	$1,484	$2,354	$2,738	$2,565	$16,535
Canada	93	112	167	167	136	1,391
North America	1,438	1,596	2,522	2,905	2,701	17,926
Brazil	409	170	316	322	410	3,955
Panama	142	222	614	722	1,223	3,245
Mexico	516	85	82	143	121	1,164
Peru	1	3	4	185	0	679
Latin America	1,207	588	1,181	1,503	1,878	10,730
Indonesia	150	529	2,434	410	374	7,641
Hong Kong	225	156	329	400	563	2,387
Singapore	255	140	266	180	322	1,705
Korea	95	35	73	103	129	1,442
Malaysia	33	146	31	83	140	904
Philippines	102	78	72	34	65	786
Thailand	55	33	31	94	72	593
Taiwan	39	47	54	55	103	582
Asia	976	1,186	3,338	1,384	1,847	16,399
Saudi Arabia/Kuwait	34	63	50	41	66	1,179
Iran	76	71	0	0	0	1,003
Middle East	130	158	96	124	175	2,654
United Kingdom	67	186	110	176	153	2,448
Belgium-Luxembourg	50	77	211	191	391	1,189
West Germany	94	110	116	194	117	925
France	41	83	54	102	93	634
Netherlands	38	41	138	73	113	622
Europe	495	578	798	876	990	7,136
Liberia	130	110	466	434	323	2,015
Africa	168	139	573	489	364	2,871
Australia	566	431	348	370	166	3,048
Pacific Region	582	448	424	421	191	3,560
Total	4,995	4,693	8,931	7,703	8,145	61,276

Source: Ministry of Finance

Japan's Foreign Direct Investment by Industry, FY 1979-FY 1983

(in millions of dollars)

	FY 1979	FY 1980	FY 1981	FY 1982	FY 1983	Total March 31, 1984
Manufacturing Sector	$1,693	$1,706	$2,305	$2,076	$2,588	$19,542
Food Products	103	54	142	78	77	883
Textiles	89	91	91	67	174	1,969
Wood Products	33	78	65	76	91	991
Chemicals	238	314	228	322	450	3,626
Metals	578	493	521	468	479	4,087
Nonelectric Machinery	160	102	207	164	169	1,434
Electric Machinery	180	309	475	267	502	2,824
Transport Equipment	150	176	406	439	486	2,309
Other	161	89	169	195	160	1,418
Nonmanufacturing Sector	3,135	2,777	6,516	5,478	5,357	39,371
Agriculture/ Forestry	83	39	75	40	18	742
Fishing	72	34	36	22	17	375
Mining	857	565	2,534	685	382	10,673
Construction	85	37	96	44	55	591
Trade	834	797	1,174	1,899	1,164	9,646
Banking/Finance/ Insurance	198	380	843	533	1,167	4,969
Services	1,006	926	623	702	622	3,340
Transportation			722	924	1,363	3,009
Real Estate			167	354	375	896
Other			246	276	193	5,130
Branch Offices	63	119	110	149	200	1,768
Real Estate*	105	91	---	---	---	595
Total	4,995	4,693	8,931	7,703	8,145	61,276

*Overseas real estate transactions have been excluded from Japan's foreign direct investment data since December 1, 1980 because of changes in the Foreign Exchange and Foreign Trade Control Law.

Source: Ministry of Finance

expansion of loans from parent companies to overseas affiliates in response to the lower cost of raising funds in Japan swelled foreign investment to a record $8.9 billion.

The United States remained the prime location for Japanese foreign investments in FY 1983, attracting another $2.6 billion (see accompanying table). Nearly $1 billion was channeled into U.S. production facilities, with much of this money going into plants to manufacture electronics equipment, automotive products, metals and chemicals. Japanese corporations were also active in the U.S. banking, finance and insurance sector, although this activity was dominated by one transaction -- Fuji Bank, Ltd.'s acquisition of two commercial finance units from Walter E. Heller International Corp. for $425 million. Still, the flow of investment funds into the United States during the April 1983-March 1984 period was down 6.3 percent from FY 1982's record total, largely because expenditures for sales organizations returned to more normal levels.

Japanese corporate investors also continued to expand their stake in Europe in FY 1983, adding almost $1 billion to their holdings. This investment closely matched the spending pattern in the United States: more money was earmarked for onshore manufacturing, particularly in the electronics field, and for banking, finance and insurance affiliates, while funding of European sales organizations was scaled back. Direct investments in Australia, in contrast, plummeted to less than $0.2 billion as Japanese companies turned cautious about expanding capacity in the mining and nonferrous metals industries.

While Japan's expanding investment presence in the United States and Europe has captured the most media attention, the main areas of stepped-up activity in FY 1983 were Asia and Latin America. Equity investments in Asia climbed by a third to over $1.8 billion. Two-fifths of this money went into manufacturing, particularly into industries in which Japan has a competitive disadvantage because of either higher labor costs (textiles, for example) or higher material costs (petrochemicals). There was also increased investment in the services and real estate industries in Asia. In Latin America, where direct investments jumped by a fourth to $1.9 billion, the transportation industry remained the main attraction, although Japanese firms put more money into production facilities as well.

Despite the expanded outflow of investment funds to Asia and Latin America during FY 1983, North America solidified its position as the top location for Japanese overseas investments. As of March 1984, corporate investors had a $17.9 billion stake in the United States and Canada, with $5.2 billion invested in the manufacturing sector, particularly in electronics and transportation equipment, $6 billion in commercial businesses and $2.1 billion in the banking, finance and insurance industries. Nipping at North America's heels was Asia, where Japanese corporations had equity holdings of $16.4 billion, concentrated in metals, chemicals, textiles and other manufacturing activities ($6.5 billion) and mining ($5.6 billion). Trailing North America and Asia as an overseas investment site for Japanese companies was Latin America. Out of the $10.7 billion that had been invested in this region through FY 1983, $3.9 billion had gone into production facilities and another $2.2 billion had been spent on transportation services.

With nearly $2.6 billion going into offshore production plants during the April 1983-March 1984 period, manufacturing investments continued to represent the leading edge of Japanese capital spending abroad (see accompanying table). By the end of the fiscal year, Japanese corporations had funneled $19.5 billion into this sector, including $6.5 billion in Asia, $5.2 billion in North America and $3.9 billion in Latin America. Mining projects were a distant second to manufacturing facilities as the destination for Japanese foreign investment funds. Nearly $10.7 billion had been invested through this past March, divided almost evenly between Asian countries, especially Indonesia, and the rest of the world. The third-largest concentration of money -- $9.6 billion worth -- was in the commercial area, with over three-fifths of this amount invested in American and Canadian sales affiliates.

Susan MacKnight

Notes

- The lower house of the Diet approved the controversial health insurance reform bill July 13 and sent it to the upper house for consideration, where approval is expected. Action by the lower house cleared the way for consideration of other important cabinet initiatives, including reorganization of Nippon Telegraph and Telephone Public Corp. (NTT) (see JEI Report No. 28B, July 20, 1984).

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The views expressed in this report are those of the authors and do not necessarily represent those of the Japan Economic Institute.

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REPORT

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U.S. AGRICULTURAL EXPORTS TO JAPAN: A REVIEW OF 1983 SALES

Summary

The importance of Japan as a buyer of U.S. agricultural commodities was never more evident than in 1983. Total American farm exports fell for the second year in a row, slipping 1.4 percent to $36.1 billion. Sales to Japan, however, overcame the twin constraints of sluggish economic growth and the strong dollar and climbed 12.5 percent to $6.2 billion. Part of this gain reflected higher prices, but the volume sold expanded rather significantly. As a result, Japan solidified its position as the number-one buyer of U.S. corn, soybeans, meat and cotton and as the second-largest market for wheat and fruits and vegetables.

Feed Grains

Uncertain market conditions clouded 1983 forecasts of Japanese demand for commercially mixed livestock and poultry feed -- the end use for three-fourths of the country's corn imports and all of its sorghum purchases. Formula feed production had rallied in 1982 from back-to-back declines, increasing 4.7 percent to 22.7 million metric tons, a new record. Commodity analysts and traders were concerned, however, that higher prices for U.S. corn and soybeans and/or lower prices for eggs, milk, broiler meat, pork and beef would choke off the recovery last year by once again squeezing livestock and poultry producers' profits.

The principal worry was that the run-up in U.S. corn prices, triggered by the payment-in-kind program announced in late March and escalated by last summer's severe drought, would lead to a big jump in mixed feed prices. Industry price leader Zennoh, a national federation of cooperatives that controls about two-fifths of Japan's feed market, did hike list prices in July and again in October, as did other feed manufacturers. By using industry-generated price stabilization funds as well as some money from the government-supported Mixed Feed Price Stabilization Fund in the fourth quarter, however, feed mills managed to hold effective feed prices virtually flat during 1983. The stronger yen, efficient use of forward purchases and lower ocean freight rates also helped manufacturers maintain retail feed prices below the levels that had prevailed in 1981 and the first three quarters of 1982.

Thanks to lower prices for feed, which can represent up to two-thirds of production costs for livestock and poultry raisers, feed demand last year came close to matching 1982's robust level. Purchases of poultry feed continued to expand even though another drop in wholesale broiler meat prices kept the average producer on the profit-loss borderline. Demand for dairy feed also increased for the second year in a row, as the number of cows in milk rose following the discontinuation in late 1982 of a three-year program to cut milk output by culling less productive cows. Beef feed demand was up as well in 1983, since another gain in the Wagyu herd more than canceled out the dampening effects of a further reduction in the number of dairy steers placed on feed.

Increased demand for poultry, dairy and beef rations kept the recovery in mixed feed production going in 1983, but feed mills were not able to top 1982 output because of scaled-back purchases by their major customers -- egg producers. Sales of layer feed, which normally accounts for 30 percent of feed production, fell to their lowest level in five years as egg producers tried to prop up falling prices by limiting the size of layer flocks. Moreover, demand for hog feed marked time in 1983. Having finally won the battle for profits, hog raisers, who buy just under 30 percent of feed industry output, were cautious about increasing placements on feed, afraid that too fast a buildup would weaken pork prices.

Although 1983 Japanese formula feed production, at 22.6 million metric tons, fell short of the output record by half a percentage point, last year was a much better year for American corn exporters than 1982. Feed millers had expanded output in 1982 in large part by using 0.5 million metric tons of surplus rice. More protein meal had also gone into rations. In addition, manufacturers had substituted some sorghum for corn because of relatively favorable sorghum prices. The result was a 6.1 percent gain in sorghum usage to 3.4 million metric tons, accompanied by a 3.8 percent rise in Japan's sorghum imports to the same volume, and a 1 percent drop in corn utilization to 10.3 million metric tons, which translated into a 0.6 percent dip in total purchases of imported feed corn to 10.3 million metric tons but a 3.1 percent reduction in U.S. corn purchases to 9.9 million metric tons.

American corn exporters more than made up for this drop in 1983. With corn/sorghum price ratios tilted for much of the year in favor of increased corn mixing, feed compounders expanded corn usage 10.7 percent to an all-time-high 11.4 million metric tons. The corn content of feed was particularly high in 1983's first half, averaging on a monthly basis between 48 and 49 percent of total ingredients. It declined in the second half as millers, in a cost-cutting move, substituted less expensive sorghum and rye for some

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higher-priced corn, but even the 46.5 percent corn content of December's output meant extra sales for American traders. In fact, U.S. farmers reaped double benefits from the big increase in corn usage since drought resulted in tight supplies in other corn-exporting countries. Total feed corn imports were up 6.7 percent to a record 11 million metric tons, with U.S. corn, which jumped 10.4 percent, supplying virtually the full amount.

U.S. sorghum producers were not so lucky. Sorghum usage in Japanese formula feed was pared back 15.5 percent in 1983 to just 2.9 million metric tons, trimmed not only by competitive corn prices in the first part of the year but also by another jump in the use of surplus rice, this time to 0.7 million metric tons. This cutback, which dropped the sorghum content of feed to a record low 12 percent last year, automatically limited market opportunities for American exporters by reducing Japan's total imports 13.7 percent to under 3 million metric tons. In addition, Argentine suppliers won contracts for the bulk of Japanese requirements because of lower prices, leaving U.S. growers with sales of only 0.7 million metric tons.

Japanese production of mixed feed is projected to increase modestly this year, rising perhaps 1 or 2 percent. Despite much higher ingredient costs, Zennoh and other feed manufacturers extended fourth quarter 1983 list prices through June 1984. Effective prices did go up 1.8 percent in the January-March period and 2.5 percent in the April-June quarter because of a reduction in industry-funded price stabilization payments, but these markups are not expected to dampen aggregate feed demand. Broiler meat producers are likely to remain at least marginally profitable, encouraging greater output of poultry feed. Demand for swine feed should also strengthen as hog raisers respond to favorable pork-feed price ratios by expanding their herds. Purchases of dairy feed could level off, though, because improved milk production efficiency has eliminated the need to expand dairy cow numbers. Beef feed demand might be flat as well, since a jump in the Wagyu cow slaughter in 1983 has reduced beef cow numbers and the calf crop has been cut in response to weak prices. Still, the only customers certain to scale back feed purchases are egg producers, who are trying once again to shore up sagging prices by limiting flock sizes.

Even if projected Japanese feed output is on target this year, U.S. corn exporters are unlikely to duplicate their record-breaking performance of 1983, when volume climbed 14.1 percent to a little over 13 million metric tons and sales jumped 37.6 percent to just under $1.8 billion. Corn/sorghum price ratios have moved increasingly in favor of greater sorghum usage, and this is trimming purchases of U.S. corn at the margin. Moreover, little expansion is expected in Japanese imports of corn for manufacturing corn sweeteners and other processed products, largely because most major food and beverage makers have already made the switch to corn sweeteners and a surcharge in effect since October 1982 has reduced the price competitiveness of corn sweeteners. The limited availability of South African maize last year allowed U.S. exporters to capture much of Japan's industrial corn trade, which represents roughly one-fourth of total corn imports, but continued tight South African supplies are of little help to American competitors in a slow-growth market.

Soybeans

In a repeat of 1982, the markets in Japan for soybean oil and soybean meal moved out of step last year, forcing oilseed crushers to rejuggle their priorities once again. Oil consumption had risen at a faster pace in 1982 than demand for soybean meal, which did not benefit fully from the rebound in livestock and poultry mixed feed because of the availability of competitively priced fish meal and rapeseed meal. Rather than possibly flooding the meal market that year by crushing enough soybeans to meet the demand for oil, processors limited the size of the crush and relied on imported soybean oil to supply unfilled domestic requirements. Last year the situation was reversed. Oil consumption, while up, was not as buoyant as the demand for meal. Processors did expand the crush, rather significantly in fact, but they capped it below the volume indicated by meal, afraid that oil stocks might build up to price-depressing levels. Crushers also adjusted to market conditions by increasing meal imports and slicing purchases of foreign-made oil.

From 1983's all-time-high soybean crush of 3.9 million metric tons, Japanese oilseed processors produced 3 million metric tons of meal -- 8.4 percent above the year-earlier level and also a new record. Soybean meal usage in commercially prepared feed went up by an even bigger margin, climbing 9.5 percent to 2.6 million metric tons. Increased demand for broiler feed and stable demand for hog rations were partly responsible for this hike, but the major factor was a shift in relative protein meal prices in favor of greater soybean meal usage. Soybean meal prices were particularly attractive in the first half of 1983, encouraging feed millers to raise the soybean meal mixing ratio to between 11.2 and 11.4 percent. As drought-triggered jumps in U.S. soybean prices began to show up in Japanese soybean meal prices, however, the feed industry started to buy more rapeseed meal. By December, soybean meal had fallen to just 10.3 percent of all feed ingredients, while the rapeseed mixing ratio had increased to 1.8 percent from 1.2 percent in January and 1.5 percent in July. Still, the soybean meal content of Japanese formula feed averaged 11 percent in 1983, up from 1982's 10.6 percent level.

The big 1983 soybean crush also yielded a record volume of oil -- 692,000 metric tons, 9.2 percent above 1982's outturn. With wholesale soybean oil prices running roughly 3 percent below rapeseed oil prices through the summer, manufacturers of blended oils and processed oil products stepped up their purchases of soybean oil. Higher U.S. soybean prices eliminated the wholesale price spread between the two oils in the last four months of 1983 and led to some substitution of rapeseed oil for soybean oil. For the year as a whole, however, soybean oil consumption in food products increased 4.3 percent to 661,000 metric tons, while rapeseed oil use slipped 0.8 percent to 495,000 metric tons. In fact, the gain in soybean oil demand, which was double 1982's growth, pulled total Japanese edible vegetable oil consumption up 1.6 percent to nearly 1.6 million metric tons.

Strong demand for soybean meal in the commercial feed industry virtually insured all-time-high soybean shipments by the United States -- the supplier of all the soybeans crushed by oilseed processors -- even without any apparent rise in sales of food-use soybeans. What guaranteed record sales, though, was overbuying by Japanese crushers, who were afraid that the 1983 U.S. drought might lead to tight supplies and even higher prices than actually materialized. Together, these developments raised deliveries 11.7 percent to 4.6 million metric tons and lifted sales 24.8 percent to $1.2 billion.

Japanese soybean imports this year are likely to fall 0.3 to 0.4 million metric tons short of the record 5 million metric tons purchased in 1983. Because of overbuying and a slowdown in the crush last fall, oilseed processors carried unusually big soybean stocks into 1984. Carryover meal inventories were also high. The projected expansion in formula feed production will help work down meal stocks, but the growth in meal demand could be much lower than 1983's increase since feed mills are expected to trim the soybean meal mixing ratio in an attempt to improve profit margins.

Meat

In 1983, unlike some earlier years, increased U.S. exports of corn and soybeans for commercially mixed livestock and poultry feed did not come at the expense of American meat sales: all three commodity groups set new export records. The significant rise in meat exports was all the more impressive because it occurred against a background of expanded Japanese production and reduced supermarket meat sales. Beef output, for example, was up for the fourth straight year, rising 2.9 percent to 495,000 metric tons on the basis of a bigger Wagyu slaughter. Increased supplies, however, did not prevent retail prices from going up again, and purchases by households, which generate about three-fifths of beef demand in Japan, declined after two years of strong gains.

Fortunately for domestic producers as well as Australian and American exporters, beef consumption in restaurants and hotels continued to expand. So did processing use. With demand in these two sectors rising, total beef imports, which had remained stuck around the 122,000 metric ton level in the 1980-82 period, were allowed to increase to 137,000-plus metric tons. U.S. shippers were the main beneficiaries of this increase, as exports advanced 13.9 percent to 60,000 metric tons worth $254 million. Moreover, these were not the paper transactions of 1981 and 1982. In a reversal of its earlier practice of adding most American beef to stocks to keep returns to domestic beef producers high, the semipublic Livestock Industry Promotion Corp. reportedly released much of the beef bought from the United States in 1983 to the market.

Expanded U.S. exports of fresh, chilled and frozen beef to Japan last year were supplemented by another gain in shipments of beef offals, this one of 6.7 percent to 34,000 metric tons valued at $84 million. Larger sales of diaphragm muscles from grain-fed carcasses (hanging tenders and outside skirts), which account for roughly three-fifths of American beef offal exports, apparently generated most of the gain. Family restaurants in Japan use this cut for low-priced steak dinners, while supermarkets package it for sale as formed steaks and marinated barbecue slices.

Poultry production in Japan expanded 5 percent last year to almost 1.3 million metric tons, spurred by strong demand from fast-food outlets and other restaurants, which account for roughly half of Japanese chicken consumption. Reduced supplies of the Thai broilers often favored by institutional users also encouraged producers to increase output in the face of another downturn in family chicken purchases. Because of the limited availability of Thai chicken, total imports slipped 2.3 percent to 101,000 metric tons, but its competitor's supply problems created a small windfall for the United States. U.S. chicken exports jumped 19.4 percent to 64,000 metric tons worth $87 million. Shipments of the bone-in legs that make up the bulk of American sales were particularly brisk, reflecting the fact that they have become a staple retail item in Japan.

Supply constraints, both in Japan and abroad, also created additional market opportunities for American pork exporters. Japanese pork producers only increased their output by a fractional amount in 1983 to 1.4 million-plus metric tons as high and rising retail prices led to the third back-to-back decline in purchases of table pork. Shipments from Denmark were curtailed as well since the ban imposed on imports in April 1982 after an outbreak of hoof-and-mouth disease there was not lifted until September. With demand for hams, sausages and other processed pork products continuing to expand, processors -- who use about a fourth of total Japanese pork supplies and up to three-fourths of imported supplies -- upped their purchases from the United States and Taiwan. Increased institutional usage, which represents another fourth of Japanese consumption, also gave a boost to American and Taiwanese shipments. Overall, U.S. pork exports went up 13.1 percent to 34,000 metric tons valued at $118 million, while Japan's total imports climbed 17.8 percent to 166,000 metric tons.

Japanese pork imports are likely to expand again this year on the strength of greater processing demand, but U.S. exports are not expected to increase due to Denmark's re-entry into the market and stepped-up competition from Taiwanese suppliers. American exporters will probably not benefit either from the projected growth in Japan's overseas chicken purchases since imports from Thailand should return to their 1982 level and Brazil is emerging as a major competitor, particularly in the market for bone-in legs. On a more positive note, exports of American beef to Japan will go up again in 1984, if for no other reason than because the beef quota has been raised for the current fiscal year. An across-the-board drop in Japanese beef production should also stimulate sales.

Wheat

The story of the Japanese wheat market in 1983 is the old one of virtually no growth in wheat flour consumption and basically flat wheat imports. Through its control over the volume of wheat shipped into the country and the price at which it as well as domestic wheat are resold to flour millers, the government's Food Agency has tried in recent years to slow the decline in Japanese rice consumption at the expense of increased demand for wheat. It has limited the expansion of wheat allocations to the milling industry to less than the rate of growth in apparent demand for processed wheat products. The government agency has also boosted wheat wholesale prices by larger margins than rice resale prices in an attempt to tilt relative prices back in favor of rice. Wheat resale prices were hiked an average 14.1 percent in 1980 and a further 5.6 percent the next year. They were left unchanged in 1982 despite a 3.9 percent rise in the resale price of rice, but another increase in wheat wholesale prices -- this one averaging 8.2 percent -- went into effect in February 1983.

While the government is losing the battle to brake the fall in rice consumption, its direct and indirect wheat pricing policies have contained the expansion of wheat flour consumption to a marginal rate at best. Last year, bread output inched up 0.2 percent and the production of wet, dry and instant noodles rose 1.3 percent. In the five years through 1983, moreover, bread production increased only 2.2 percent, while noodle output expanded just 2.4 percent.

Rising imports of processed wheat products, which are not controlled by the government, have also helped to hold down flour consumption. Foreign-made spaghetti, in particular, has won a significant market in Japan; by 1983 pasta imports were equal to 13 percent of Japanese consumption, compared with 6 percent just five years before. Imported dry noodles, too, have fared well in the Japanese market, supplying about 2 percent of demand last year.

For wheat growers in the United States, Canada and Australia, low to no growth in Japanese flour consumption has kept imports of wheat for food use within a band of 4.4 to 4.7 million metric tons for the past five years. Purchases did expand by a modest 2.9 percent in 1983 to 4.5 million-plus metric tons, but only because domestic wheat production fell 6.3 percent from its record 1982 level to 695,000 metric tons. Neither have exporters found an expanding outlet for wheat in commercially prepared livestock and poultry feed. Japan's purchases of wheat for feed use have stayed just under 1.3 million metric tons since 1979, mainly because wheat is an expensive source of nutrients relative to substitute feed ingredients.

Japan's wheat imports could increase modestly this year. Domestic wheat production is projected to be off by about 9 percent, in part because more acreage will be planted to rice. In addition, wheat resale prices were left unchanged for 1984, while rice wholesale prices were raised by an average 3.8 percent. This should encourage some increase in consumption. American growers, however, will be lucky to match 1983 exports of 3.5 million metric tons valued at $589 million since their Australian competitors, who were handicapped by tight supplies last year, have a record crop available for export.

Cotton

While conditions in the wheat market were a replay of earlier years, the story of the cotton yarn market in 1983 was a new and long-awaited one: after several false starts in 1981 and 1982, Japanese cotton spinners finally turned the corner on profitability last year. Yarn prices, which had fallen continuously from April 1982, began to recover last May; by December, quotes had hit their highest point in ten years. Full-year prices averaged only 2 percent-plus above the 1981-82 level, but this rise was enough to put cotton spinners in the black.

The spinning industry's return to profitability hinged entirely on supply-side adjustments. Increased demand for cotton goods played no role in the turnaround; if anything, domestic consumption of yarn, fabrics and made-up articles was weaker in 1983 than the year before. The key, as the industry had long known, was to cut back yarn production enough that cotton goods stocks could be worked down to less price-depressing levels. Voluntary production-restraint programs, in effect since the spring of 1980, had had mixed results in 1980 and 1981 and were a complete flop in 1982, when yarn output actually increased. Last year they succeeded. Production of cotton yarn fell 6.9 percent to 438,000 metric tons -- the lowest output volume in at least 25 years, and average monthly inventories of cotton goods in 1983's second half were drawn down to the equivalent of 732,000 400-pound bales of cotton -- close enough to the target of 720,000 bales to push yarn prices up to profitable levels.

Cotton spinners also got some help from an unexpected quarter in 1983: foreign yarn suppliers. One reason earlier production-curtailment programs had failed to prop up prices for more than a few months was because yarn imports, particularly from Korea and Pakistan, would flood into the market whenever the differential between Japanese prices and import prices widened. Last year, though, Korean exporters agreed to curb their yarn shipments for three years starting in April in exchange for the withdrawal of the first dumping complaint ever filed in Japan. In addition, the amount of Korean yarn available for export shrank with a pickup in domestic demand. Although shipments from Pakistan continued to expand, the cutback in imports from Korea dropped total yarn imports 9.4 percent below 1982's record volume.

Japan's imports of cotton last year contracted 15 percent from 1982's extraordinarily high level to 666,000 metric tons, partly because of the decline in yarn production but mainly because spinners had taken advantage of favorable U.S. prices in 1982 to rebuild stocks. With strong yarn prices encouraging spinners to continue their production restraints, 1984 cotton imports could fall again. How much they fall, though, might depend more on export availability than demand adjustments, since cotton, particularly the high-quality cotton Japanese spinners use for their high-count yarn, is in short supply worldwide. About the only certainty is that the United States, which shipped 318,000 metric tons of cotton to Japan in 1983 for sales of $500 million, will provide close to half of whatever the spinning industry buys.

For further information contact Susan MacKnight.

The views expressed in this report are those of the author and do not necessarily reflect those of the Japan Economic Institute.

* * * * * *

Table 1: U.S. Agricultural Exports by Country, 1979-83*

(in millions of dollars)

		1979	1980	1981	1982	1983(p)
Total		$34,745	$41,233	$43,337	$36,623	$36,098
1.	Japan	5,255	6,111	6,562	5,547	6,240
2.	Netherlands	2,619	3,412	3,300	3,042	2,530
3.	Mexico	1,024	2,481	2,432	1,156	1,942
4.	Korea	1,441	1,798	2,008	1,581	1,840
5.	Canada	1,650	1,836	1,989	1,805	1,829
6.	West Germany	1,404	1,831	1,758	1,448	1,529
7.	U.S.S.R	2,855	1,046	1,665	1,850	1,457
8.	Taiwan	1,074	1,095	1,145	1,155	1,308
9.	Spain	930	1,129	1,268	1,459	1,138
10.	Egypt	601	771	967	800	943
11.	Belgium-Luxembourg	540	600	852	904	833
12.	United Kingdom	1,057	996	961	896	812
13.	Italy	1,005	1,094	1,177	941	713
14.	India	261	318	476	350	699
15.	Venezuela	492	701	893	671	665
16.	Portugal	485	608	757	576	660
17.	China	990	2,210	1,956	1,498	544
18.	France	725	748	624	612	485
19.	Brazil	536	680	711	526	479
20.	Saudi Arabia	326	375	466	487	440

*Not adjusted for transshipments through Canada, the Netherlands or Belgium.

Source: Department of Agriculture

Table 2: Major U.S. Agricultural Exports to Japan, 1981-83

	Quantity (in metric tons)			Value (in thousands of dollars)		
	1981	1982	1983(p)	1981	1982	1983
Total	---	---	---	$6,562,294	$5,547,178	$6,240,390
Corn*	11,829,387	11,435,091	13,046,635	1,781,403	1,274,991	1,753,335
Grain Sorghum*	2,904,463	1,869,976	643,858	408,774	205,498	84,137
Soybeans*	4,001,380	4,104,928	4,585,133	1,137,878	977,878	1,220,163
Soybean Meal	82,135	48,687	33,587	22,832	10,507	8,086
Alfalfa Meal and Cubes	313,420	424,813	466,480	40,027	55,293	66,634
Dried Beet Pulp	404,387	336,351	364,831	63,537	49,422	51,382
Wheat	3,364,301	3,345,459	3,464,770	615,025	563,648	589,324
Cotton**	279,627	339,320	317,845	503,565	500,605	499,933
Beef and Veal***	42,879	52,362	59,645	157,856	232,396	253,475
Beef and Veal Offals***	32,188	31,503	33,624	99,645	96,992	83,948
Pork***	39,808	30,237	34,197	143,166	111,399	117,975
Chicken***	63,061	53,382	63,756	77,522	64,888	87,085
Whole Cattle Hides****	7,495,175	6,443,988	6,388,331	255,121	207,170	224,111
Inedible Tallow	87,520	69,346	56,365	39,780	33,882	23,872
Lemons	116,846	107,281	120,165	66,293	69,050	74,210
Grapefruit	159,366	139,792	168,542	59,104	47,340	59,668
Oranges	76,821	83,010	89,781	44,449	51,300	51,857
Raisins	16,167	15,477	17,839	29,802	25,850	22,649
Frozen Vegetables	83,000	71,515	82,024	56,986	53,851	61,650
Almonds	9,598	13,330	13,787	37,476	36,967	43,506
Tobacco	53,063	50,040	51,791	301,698	309,920	338,480

*Excludes seed.
**Excludes linters.
***Fresh, chilled or frozen.
****Quantity in number of pieces.

Source: Department of Agriculture

Table 3: U.S. Exports of Corn, 1981-83*

	Quantity (in thousands of metric tons)			Value (in thousands of dollars)		
	1981	1982	1983(p)	1981	1982	1983(p)
Total	54,711	48,772	47,509	$7,929,193	$5,579,853	$6,364,222
Japan	11,829	11,435	13,047	1,781,403	1,274,991	1,753,335
Mexico	2,825	245	4,701	450,716	32,603	643,414
Korea	2,216	2,880	4,074	323,825	331,713	559,678
Taiwan	1,480	1,902	3,266	237,910	238,328	430,296
U.S.S.R	5,396	7,128	3,032	781,675	834,625	404,438
Spain	2,980	5,418	2,979	404,499	598,799	393,267
Portugal	2,735	2,241	2,188	378,733	251,718	299,795
Belgium-Luxembourg	1,903	2,322	2,166	257,906	256,276	291,027
Egypt	1,344	1,181	1,586	189,328	136,157	205,844
China	468	1,591	1,356	62,466	189,358	158,138
Venezuela	404	423	1,130	61,086	50,703	154,731
South Africa	0	-	868	0	17	126,508
United Kingdom	1,280	1,108	725	177,493	119,667	97,309
East Germany	1,239	1,440	766	184,175	163,310	96,730
Netherlands**	1,796	1,093	541	246,839	131,203	77,022

*Excludes corn donated for relief as well as seed and popcorn.
**Not adjusted for transshipments.

Source: Department of Agriculture

Table 4: U.S. Exports of Grain Sorghum, 1981-83*

	Quantity (in thousands of metric tons)			Value (in thousands of dollars)		
	1981	1982	1983(p)	1981	1982	1983(p)
Total	8,000	6,015	5,280	$1,150,585	$692,255	$699,067
Mexico	2,088	1,413	3,294	329,922	165,498	438,615
Japan	2,905	1,870	644	408,774	205,498	84,137
Israel	446	340	441	63,342	40,473	54,607
Venezuela	722	502	287	101,881	62,054	39,717

*Excludes seed.

Source: Department of Agriculture

Table 5: U.S. Exports of Soybeans, 1981-83*

	Quantity (in thousands of metric tons)			Value (in thousands of dollars)		
	1981	1982	1983(p)	1981	1982	1983(p)
Total	21,830	25,475	22,704	$6,185,529	$6,217,747	$5,913,386
Japan	4,001	4,105	4,585	1,137,878	977,898	1,220,163
Netherlands**	4,394	5,150	3,789	1,283,429	1,333,533	960,359
Spain	1,910	3,205	1,944	520,204	743,522	520,748
West Germany	2,025	2,044	1,611	566,833	507,148	422,614
Taiwan	1,053	1,127	1,375	314,169	285,560	362,647
Belgium-Luxembourg	1,041	1,405	1,111	286,821	327,756	286,082
Mexico	665	287	943	207,918	75,782	234,653
Korea	425	588	745	124,027	141,879	201,200
Portugal	298	470	701	82,820	114,676	181,370
U.S.S.R.	34	649	569	8,432	171,264	159,477
Italy	961	906	595	271,392	209,861	154,647
Switzerland	111	381	549	29,686	91,332	143,437
France	628	897	515	172,113	205,359	131,230
United Kingdom	519	650	504	140,946	154,755	127,285

*Excludes seed and soybean meal.
**Not adjusted for transshipments.

Source: Department of Agriculture

Table 6: U.S. Exports of Wheat, 1981-83*

	Quantity (in thousands of metric tons)			Value (in thousands of dollars)		
	1981	1982	1983(p)	1981	1982	1983(p)
Total	43,839	40,653	38,314	$7,831,849	$6,655,438	$6,213,587
U.S.S.R	4,082	4,295	4,836	772,563	802,182	800,584
Japan	3,364	3,346	3,465	615,025	563,648	589,324
India	1,375	1,522	3,426	237,032	247,758	565,054
Brazil	2,995	2,552	2,626	551,339	429,097	423,196
China	7,442	6,870	2,458	1,268,977	1,053,468	377,686
Korea	2,032	1,874	1,885	357,744	298,758	304,772
Egypt	1,941	1,806	1,919	324,285	276,945	292,811
Nigeria	1,197	1,421	1,316	224,098	234,593	214,862
Iraq	96	178	1,137	16,820	27,031	184,020
Morocco	695	761	1,228	103,400	109,133	168,863
Chile	984	1,074	1,016	178,201	169,551	159,026
Indonesia	724	968	960	129,566	155,655	157,880
Venezuela	891	713	889	174,225	125,690	157,841
Philippines	837	914	846	157,949	155,403	145,448
Peru	919	950	799	164,427	155,089	126,448

*Excludes wheat donated for relief.

Source: Department of Agriculture

Table 7: U.S. Exports of Cotton, 1981-83*

	Quantity (in thousands of metric tons)			Value (in thousands of dollars)		
	1981	1982	1983(p)	1981	1982	1983(p)
Total	1,269	1,392	1,201	$2,259,979	$1,955,270	$1,817,087
Japan	280	339	318	503,565	500,605	499,933
Korea	286	319	271	489,532	425,457	395,587
Indonesia	50	66	61	92,132	99,641	97,670
Taiwan	75	175	73	112,430	208,322	93,094

*Excludes linters.

Source: Department of Agriculture

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Capital Flows Put Pressure on the Yen

In just one month's time, overheated demand for the dollar wiped out the yen's hard-won gains of the past few months. The yen, along with all other major currencies, weakened against the dollar throughout July, hitting a ten-month low. Japanese exchange-market experts are predicting that the yen could fall as low as Y250 to the dollar before long. Analysts point to wide real interest rate differentials between the United States and Japan as well as the liberalization of Japanese financial markets as key factors in the shift of the yen-dollar exchange rate.

The Japanese currency began July by falling almost one yen against the dollar over the June 30-July 1 weekend, from Y237.50 to Y238.65 (median rate) as traded on the Tokyo interbank spot market. By July 6, the yen had fallen to Y240.80 on rumors of higher U.S. interest rates and jitters over the Iran-Iraq war, and it continued to drop for the rest of the month, tumbling to Y242.10 by the second week of July, Y243.05 in the third week, and Y244.50 by July 27. For the month as a whole, the yen declined 3.4 percent, ending up at at Y241.40=$1.00 on August 6. The yen's decline has not been as steep as that of the European currencies, yet many expect it to remain in the Y240 to Y250 range for some time. As Mr. Gyoten pointed out to the prime minister, the yen-dollar exchange rate will not change course overnight.

Jon Choy

Finance Ministry Adopts 7 Percent Defense Budget Ceiling

The Ministry of Finance (MOF) proposed on July 31 an increase in Japanese defense spending of no more than 7 percent for fiscal year 1985 (April 1985-March 1986). The official budget ceiling, negotiated over the past two months by MOF, the Japan Defense Agency (JDA) and supporters of defense spending, constitutes the first step in formulating the government's budget for the coming fiscal year.

Defense was again a standout in otherwise austere budget proposals. Overall, MOF recommended increasing the general account budget by no more than 0.86 percent, compared with an increase of 0.5 percent for the current fiscal year. Last year at this time, MOF settled on a defense ceiling of 6.88 percent, with actual defense allocations increasing by 6.55 percent. The ministry had proposed a 5 percent increase for FY 1984, with JDA pressing for 7 percent. The fiscal 1985 budget compromise was worked out by Finance Minister Noboru Takeshita and JDA chief Yuko Kurihara. The finance minister had proposed a spending hike of no more than 3.5 percent, while Mr. Kurihara sought an 8 percent increase.

Proposed and Actual Defense Spending
Fiscal Year 1984
(March 1984-April 1985)

(in billions of yen)

Allocation:	Proposed	Change from FY 83	Actual	Change from FY 83
Ground Self-Defense Forces (GSDF)	1,069.728	4.1%	1,077.539	4.9%
Maritime Self-Defense Forces (MSDF)	711.896	8.8	705.984	7.9
Air Self-Defense Forces (ASDF)	765.409	9.4	758.721	8.5
Internal Bureaus	9.955	3.7	9.980	4.0
Joint Staff Council	1.804	88.8	1.696	77.6
National Defense Academy	.717	-3.7	.719	-3.6
National Defense College	9.646	6.9	9.673	7.2
Defense Medical College	11.363	1.1	11.395	1.4
Technical Research and Development Institute	44.295	14.7	43.758	13.3
Central Procurement Office	4.376	-1.7	4.409	-1.0
Defense Facility Administration Agency	314.511	5.3	310.647	4.0
National Defense Council			.124	0.0
Total	2,943.7	6.9	2,934.645	6.55

The budget ceilings are similar to the first budget resolution approved annually by Congress. They are designed to set target spending levels for the coming fiscal year, without necessarily representing final figures. There is still room for negotiation among government agencies, but the figures released by the Finance Ministry generally do not deviate significantly from the final totals approved by the cabinet.

An increase of 7 percent in Japan's defense budget would amount to Y205.5 billion ($840 million), bringing total spending to just over Y3.1 trillion ($12.8 billion). The spending hike, at a time when government policymakers are determined to reduce budget deficits by controlling expenditures, may represent the minimum annual spending increase for defense for the coming years. Japanese leaders, particularly Prime Minister Nakasone, appear committed to fulfilling domestic defense plans and shouldering a larger burden in the region.. Although many U.S. analysts contend that annual spending increases exceeding 10 percent are needed to achieve those goals, the figure adopted by MOF does not represent a step backward for defense in Japan.

The prime minister is likely to come under fire during the coming months for pressing forward on defense while maintaining constant spending levels in other areas, particularly in accounts which would help stimulate the domestic economy. Mr. Nakasone's rivals for the Liberal Democratic Party (LDP) presidency already have called for stimulative budgets for the coming years and can be expected to make this a major issue as the fall election approaches. This may have convinced the JDA director to accept a spending hike more or less in line with recent increases.

Another factor influencing the budget figure was the country's "one percent policy," which limits total defense spending to one percent of the country's gross national product. With the Japanese economy growing more rapidly than anticipated, defense spending has remained just below the one percent level so far, and it is expected to stay at 0.99 percent of GNP through the remainder of FY 1984. Given current estimates for economic growth in the year starting in April 1985, the hikes should not push total defense expenditures above that threshold. While the debate may appear unimportant to outside observers, the prime minister has vowed to make every effort to maintain the one percent ceiling. Exceeding the level at this point could affect his credibility and damage his chances for reelection.

Once the cabinet confirms the FY 85 budget, it will be presented to the Diet for approval. The most significant phase in the budget process is the establishment of budget ceilings. Final figures generally deviate only slightly from the initial proposals. Fiscal 1984 defense appropriations, for example, varied only slightly from the proposals made in 1983.

The proposed increases may not satisfy American critics of Japan's defense efforts, who seek even higher spending levels and a greater role for the country in the region, but the hikes are considerably larger than those expected from many NATO countries, as they have been for the past several years. While Japan may be able to afford to spend more on defense, the increases probably reflect the current political limit until such a time as policymakers are satisfied that budget austerity may be discontinued and public opinion accepts an enlarged role for the Self-Defense Forces in Japan.

Michael Chinworth

small- and medium-sized firms. The American variant would be funded through stock issues instead of through loans from government and private banks as in the case of JAROL. Like JAROL, the U.S. corporation would offer engineering and technical advice to firms interested in installing robots and provide low-interest loans subsidized by the Commerce Department's Office of Industrial Technology ($20 million is authorized annually for FY 1984 to FY 1987). Also like JAROL, the idea is being criticized as expensive and ineffective. The bill is in the House Banking Committee's Economic Stabilization Subcommittee with no action scheduled.

In the House Science and Technology Committee is H.R. 4047, the Robotics and Automated Manufacturing Systems Research and Education Act, which would provide funds to the National Science Foundation for a group of programs promoting robotics. Tentatively funded at $37.25 million in FY 1983, $59.25 million in FY 1984 and $72.25 million in FY 1985 through FY 1990, the integrated package includes research activities, establishment of research centers to facilitate robotics technology transfers, limited R&D partnerships with private firms, and education and training for private companies.

A final bill, H.R. 4048, would add 10 percentage points to the investment tax credit for expenditures on robots and computer-controlled machinery. The tax impact of the bill has not been determined, nor has its impact on the use of manufacturing robots. The bill is presently in the Tax Subcommittee of the House Ways and Means Committee with no action planned.

These bills underscore the U.S. government's commitment to fostering research and development vital to continued economic growth. They also highlight, however, the debate over the best method to realize this goal. The administration is clearly in favor of a free-market approach -- it has refused to spend the majority of the $285 million Congress authorized in 1980 for high technology research. Some congressmen, on the other hand, feel that more support must be offered, not by making the decisions for the private sector, but by making it easier for the private sector to realize its decisions. These moves appear to echo past and present Japanese initiatives. Whether the U.S. proposals represent improvements or simply copies of those ideas is yet to be determined.

Jon Choy

Bilateral Trade Deficit Likely to Top $30 Billion in 1984

The explosive growth of the U.S. economy and the upward march of the dollar's value are wreaking havoc with this country's merchandise trade account. In 1983 lackluster business conditions abroad and steady economic expansion at home teamed up with the strong dollar to produce a record-breaking overall U.S. trade deficit of $57.5 billion. With the American economy booming in 1984's first half and the dollar gaining more ground against most major foreign currencies, this full-year record had almost been shattered by midyear. A pickup in business activity overseas did reverse a two-year slide in exports, pulling them up 8.1 percent to $108.7 billion, but imports jumped 31.7 percent to $160.1 billion on a Customs value basis. The result: a whopping six-month U.S. trade deficit of $51.4 billion.

U.S. Exports to Japan

(in millions of dollars, f.a.s. value basis)

	January-June 1983	January-June 1984	Percent Change
Total Exports	$10,040.5	$11,584.7	15.4%
Industrial Supplies	4,174.9	4,478.3	7.3
Bituminous Coal	526.1	500.1	-4.9
Petroleum Products	321.9	291.9	-9.3
Natural Gas	128.2	124.0	-3.3
Nuclear Fuels	136.9	83.4	-39.1
Logs and Lumber	449.4	451.9	0.6
Paper Base Stocks	232.6	266.7	14.7
Paper and Paper Products	149.5	154.5	3.3
Organic Chemicals	324.5	360.4	11.1
Inorganic Chemicals	283.6	298.0	5.1
Plastics and Synthetic Resin Compounds	150.2	178.6	18.9
Fertilizers and Insecticides	128.3	139.5	8.7
Steel Scrap	101.2	136.5	34.9
Nonferrous Ores and Scrap	148.4	180.1	21.4
Nonferrous Metals	188.1	217.0	15.4
Textiles	48.0	55.7	16.0
Raw Cotton	235.3	358.6	52.4
Hides and Skins	113.2	166.2	46.8
Leaf Tobacco	69.5	40.0	-42.4
Food and Feed	2,429.5	2,982.3	22.8
Corn	730.0	1,107.7	51.7
Sorghum	18.4	109.9	497.3
Soybeans	553.7	639.7	15.5
Wheat	273.4	243.1	-11.1
Fruits and Vegetables	232.2	245.3	5.6
Meat and Meat Products	301.9	301.1	-0.3
Fish and Fish Products	143.0	136.9	-4.3
Capital Goods	2,317.5	2,774.4	19.7
Nonelectric Machinery	1,331.4	1,671.2	25.5
Data Processing Equipment	414.8	519.2	25.2
Measuring, Testing and Control Instruments	188.5	214.1	13.6
Laboratory Testing and Control Instruments	42.7	45.3	6.1
Scientific, Professional and Medical Equipment	110.4	125.3	13.5
Power Generating Equipment (excl. aircraft and automotive engines)	42.0	214.6	411.0
Oil and Gas Field Equipment	57.0	27.4	-51.9
Metalworking Equipment	55.5	47.0	-15.3
Service Industry Equipment	59.2	54.5	-7.9
Electric Machinery	313.5	439.5	40.2
Generators and Transformers	29.5	55.3	87.5
Broadcast and Communications Equipment	138.7	220.4	58.9
Telephonic and Other Electric Equipment	145.3	163.9	12.8

Transportation Equipment	672.6	663.7	-1.3
Civilian Aircraft	380.9	255.4	-32.9
Civilian Aircraft Engines and Parts	178.9	239.5	33.9
Automotive Parts	62.1	87.9	41.5
Consumer Goods	686.9	721.8	5.1
Pharmaceuticals	267.9	270.5	1.0
Toys and Sporting Goods	61.9	48.6	-21.5
Cigarettes	32.9	49.0	48.9

U.S. Imports from Japan

(in millions of dollars, Customs value basis)

	January-June 1983	January-June 1984	Percent Change
Total Imports	$19,112.9	$27,037.5	41.5%
Automotive Products	7,167.2	9,019.4	25.8
Passenger Cars	5,317.0	6,017.9	13.2
Assembled Trucks	935.4	1,333.7	42.6
Automotive Parts	908.3	1,629.5	79.4
Capital Goods	5,404.6	8,899.8	64.7
Nonelectric Machinery	3,598.2	6,016.4	67.2
Business Machines	1,672.7	3,064.5	83.2
Metalworking Machinery	294.1	394.2	34.0
Agricultural Machinery	101.8	176.2	73.1
Specialized Industrial Machinery	308.5	639.9	107.4
Scientific, Professional and Medical Equipment	142.3	225.6	58.5
Electric Machinery	1,685.1	2,739.4	62.6
Transportation Equipment	121.3	144.0	18.7
Consumer Goods	3,707.2	5,184.7	39.9
Video and Audio Recorders and Players and Stereo Equipment	914.4	1,639.0	79.2
Television Sets	174.8	306.9	75.6
Radio Receivers	114.7	138.6	20.8
Tableware and Glassware	152.8	187.6	22.8
Metal Cookware and Cutlery	160.3	181.8	13.4
Photographic and Optical Goods	395.7	476.3	20.4
Clocks and Watches	161.7	182.7	13.0
Toys and Sporting Goods	131.6	198.0	50.5
Motorcycles and Parts	463.4	391.8	-15.5
Clothing	140.1	233.9	67.0
Intermediate Goods	2,513.0	3,532.1	40.6
Steel Mill Products	835.0	1,458.5	74.7
Nonferrous Metals	200.6	265.8	32.5
Organic Chemicals	220.7	251.5	14.0
Tires and Tubes	185.8	268.5	44.5
Textiles	254.3	337.3	32.6

Japan's role in this year's run-away U.S. trade deficit continues to defy conventional wisdom. The bilateral red-ink entry did shoot up to $15.5 billion in the first six months of 1984 from $9.1 billion in the year-earlier period and $10.2 billion in the last half of 1983 (see accompanying tables), but this jump represented only one-fifth of the deterioration in the overall trade deficit. Helped by an upturn in capital spending and higher prices for some key agricultural and industrial materials, sales to Japan again outperformed exports to other major markets in 1984's first half, increasing 15.4 percent to $11.6 billion. At the same time, however, imports of Japanese-made products, which were off slightly in the January-June 1983 period, went through the ceiling, zooming up 41.5 percent to $27 billion.

The bilateral trade deficit could easily top $30 billion this year. By how much is the big question. An end to stronger-than-anticipated U.S. growth in the last half of 1984 will do little to dampen business and consumer demand for Japanese-made products since the economy will still be increasing at a fast clip. Moreover, the run-up in the dollar's value is giving Japanese exporters an extra competitive edge in the expanding American market. In any case, the fourth quarter of the year is always the biggest import period. What could keep the trade deficit close to $30 billion is a continuation of the pickup in domestic demand in Japan, particularly in industries like steel and construction that buy big-ticket intermediate supplies.

Susan MacKnight

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The views expressed in this report are those of the authors and do not necessarily represent those of the Japan Economic Institute.

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JAPAN · ECONOMIC · INSTITUTE

JEI

REPORT

NO. 33B
August 24, 1984

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Japan Certifies U.S. Testing Firms

The Japanese government took another step recently to simplify import procedures by empowering two major U.S. product testing companies to conduct safety checks on certain products U.S. companies hope to sell in Japan. Manufacturers of consumer appliances and handtools, along with U.S. producers in general, have long complained that expensive and lengthy Japanese safety certification procedures constitute a significant nontariff barrier. This most recent move by Tokyo should quiet much of the discontent and lead more U.S. companies to try to penetrate the Japanese market.

While Japanese product standards have often been the focus of the bilateral debate, testing and certification requirements have roused more intense passions as the Japanese were accused of treating foreign and domestic businesses unequally. Prior to May 1983, most foreign companies seeking the Japanese government's stamp of approval on their products had to submit their products through a Japanese partner. Only in certain cases was it possible for foreign firms to apply directly to the Ministry of International Trade and which the writers would prefer to see based on more stable exchange rates and free capital markets. Maintaining that the debts of the developing countries are the direct result of domestic policies -- often mandated by multilateral institutions -- and the breakdown of the international monetary system, the Republicans propose that revision of the international monetary system will stabilize trade relations so that debtor nations can meet their loan commitments.

The GOP will uphold its commitment to continued regulatory reform; President Reagan has "contributed significantly to economic recovery by removing bureaucratic roadblocks and encouraging efficiency," the platform declares. Policies will encourage, rather than hinder, innovative competition in telecommunications and financial services. Underscoring its belief that technological innovation is best left to an unbridled private sector, the party will also propose extending the incremental research and development tax credit and revising U.S. antitrust law to permit American firms to cooperate in joint research and development projects.

The Republicans' fundamental distrust of Soviet behavior pervades their discussions of U.S. policy toward Latin America, Europe and the Middle East. Although consideration of U.S. policy toward East Asia comes much further down the list, Japan is considered central to our foreign policy mission in the Far East. Moreover, relations with this important Pacific ally "have never been better," the platform notes. Although Japan is urged to further expand its contribution to the region's defense, the GOP nevertheless applauds Tokyo's commitment to defend its territory, air space, and sealanes, and is heartened by its increase in defense spending. The party is optimistic that with goodwill on both sides, broader agreement on the trade front is likely.

Barbara Wanner

Bilateral Economic Discussions To Resume

Trade negotiators for the United States and Japan started preparations this week for a September round of consultations on a wide range of economic subjects, but with elections approaching in both countries, the lull in bilateral relations that has stretched through the summer is unlikely to be broken. Deputy United States Trade Representative Michael B. Smith and the vice minister for international affairs at the Ministry of International Trade and Industry (MITI) will resume their long-running dialogue on Japanese industrial policy and its impact on trade. Also on the September agenda is another meeting of the High Technology Working Group, where representatives are expected to look at how Tokyo is following up on its commitment to expand trade opportunities in Japan for American semiconductor manufacturers (see JEI Report No. 44B, November 18, 1983).

Scheduled as well is a meeting of the executive council of the Trade Facilitation Committee, which is co-chaired by Under Secretary of Commerce for International Trade Lionel H. Olmer and the MITI vice minister for international affairs. Here, the main topic of discussion is likely to be greater U.S. access to the deliberations of the Industrial Structure Council, a private sector group that advises MITI (see JEI Report No. 12B, March 23, 1984). At this time, Washington is particularly interested in the work of the council's subcommittees on pulp and paper, chemicals and high techonology.

The September consultations will be capped by a meeting of subcabinet-level economic officials, with Under Secretary of State for Economic Affairs W. Allen Wallis heading the American delegation and Deputy Foreign Minister Moriyuki Motono leading the Japanese side. The group's broad representation of government agencies could lead to a free-wheeling review of bilateral economic issues, but the major agenda item will be implementation of Japan's April market access package and its May series of initiatives on foreign access to Japanese capital markets and yen internationalization. Also on the schedule are reports from the group's subcommittees on trade and investment.

One topic apparently not on the formal agenda for the September consultations is extension of Japan's restraints on car exports to the United States beyond March 1985. Earlier this year, top Reagan administration trade officials were hinting that Washington would not press the Japanese government for a fifth year of restrictions, in part because of the large bonuses paid to U.S. auto executives. Recently, though, these officials have started to backpedal on the renewal issue. In early August, for example, Secretary of Commerce Malcolm Baldrige said that the administration would not take a stand on extending the restraints until U.S. car makers complete labor negotiations with the United Auto Workers union and their full-year financial results are available. While admitting his previous lack of enthusiasm for an extension, Mr. Baldrige maintained that he had not made up his mind. "We all need to keep our minds open until the year-end results are in," he said, adding that it will take more than one good year for U.S. auto makers to recover the losses from three bad sales years.

Missing also from the discussion agenda is an issue that has been a fixture of bilateral meetings for the past two years: Japan's beef and citrus quotas. On August 14, the Japanese Ambassador to the United States, Yoshio Okawara, notified United States Trade Representative William E. Brock of the final details of the steps Tokyo is taking to increase imports of beef, oranges and orange and grapefruit juice. Negotiators had worked a tentative agreement in early April (see JEI Report No. 15B, April 13, 1984), but a final pact hinged on clarification of Japan's concessions.

One stumbling block was disagreement over how the 27,600 metric ton increase in the beef quota would be apportioned over the four years through FY 1987. Japan has now agreed to adhere to a schedule of equal annual increases of 6,900 metric tons, rather than simply saying it will import an additional 27,600 metric tons of beef by March 31, 1988. The government also said that, until grapefruit juice imports are decontrolled on April 1, 1986, it will issue import licenses for any amount of purchase; previously, it had suggested that the licenses would be based on "actual" domestic demand. (The full text of the Japanese government's measures follows.)

Appendix: Japan's Concessions on Beef and Citrus Imports

I. Fresh Oranges and Orange Juice

A. Fresh Oranges

(1) The government of Japan will increase its import quotas on fresh oranges in accordance with the following schedule:

FY 1984	93,000 metric tons
FY 1985	104,000 metric tons
FY 1986	115,000 metric tons
FY 1987	126,000 metric tons

For these purposes, "fresh oranges" means oranges and tangerines classified under 08.02 and 08.11 of the Japanese customs tariff schedules.

(2) The government of Japan will allocate the increment in the import quota over the FY 1983 level between the annual quota and the off-season quota, taking into consideration the supply and demand situation in both countries.

B. Orange Juice

The government of Japan will increase its import quotas on orange juice in accordance with the following schedule:

FY 1984	7,000 metric tons
FY 1985	7,500 metric tons
FY 1986	8,000 metric tons
FY 1987	8,500 metric tons

For these purposes, "orange juice" means 5 to 1 concentrate or equivalent, classified under 20.07-111, 20.07-121, 20.07-131 and 20.07-141 of the Japanese customs tariff schedules.

II. Grapefruit Juice

The government of Japan will eliminate import quotas and licensing requirements on grapefruit juice on April 1, 1986.

In preparation for the elimination, the government of Japan will issue licenses for imports to meet any amount of domestic demand for FY 1984 and FY 1985.

For these purposes, "grapefruit juice" means grapefruit juice classified under 20.07-112, 20.07-122, 20.07-132 and 20.07-142 of the Japanese customs tariff schedules.

III. Beef

A. The government of Japan will exert efforts to exploit the demand for high-quality beef with a view to realizing in FY 1987 the importation of

58,400 metric tons of high-quality beef, within the special and general quotas on a global basis. The increase of 27,600 metric tons over the FY 1983 level will be phased in incrementally in even amounts each year.

"High-quality beef" will be defined according to the definition agreed to in April 1978.

B. The hotel quota will be increased from the current 3,000 metric tons per year to 4,000 metric tons per year in FY 1984 and will be maintained at that level through FY 1987.

C. The government of Japan will introduce a new measure in the Livestock Industry Promotion Corp.'s (LIPC) transactions in beef so as to facilitate consultations between foreign suppliers and Japanese users, within the framework of the principle of unified management of beef importation by the LIPC.

IV. Beef (Customs Duties)

A. The government of Japan has no intention to initiate any increase in the customs duty on beef (02.01-111, 02.01-119, 02.01-121, 02.01-129 and 02.01-139 of the Japanese customs tariff schedules), which is currently set at 25 percent, under the present price stabilization system of beef.

B. In the event that a situation makes it impossible to maintain the customs duty on beef at the above mentioned level, the government of Japan will notify the United States government of such developments in advance where possible and be prepared to enter into consultations with a view to reaching a mutually acceptable solution, which may include the possibility of appropriate adjustments of the GATT concessions.

V. Other

The government of Japan will be prepared to consult with the United States government at a mutually convenient time during FY 1987 on matters related to the importation in FY 1988 and thereafter concerning fresh oranges, orange juice and beef.

Susan MacKnight

Notes

- Cray Research, Inc. received a license August 15 to export a $12 million X-MP supercomputer to Nippon Telegraph and Telephone Public Corp. (see JEI Report No. 32B, August 17, 1984). The system was airfreighted to Japan the next day.

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STATISTICAL SUPPLEMENT

Trade and Payments Data
(in millions of dollars unless otherwise indicated)

	1982	1983	January-June 1983	January-June 1984	April 1984	May 1984	June 1984
Japan's Balance of Payments							
Trade Balance	$ 18,079	$ 31,454	$12,880	$19,284*	$ 3,902*	$ 2,944*	$ 4,845*
Exports (f.o.b.)	137,663	145,468	69,000	81,616*	14,284*	14,087*	14,649*
Imports (f.o.b.)	119,584	114,014	56,120	62,332*	10,382*	11,143*	9,804*
Current Account Balance	6,850	20,799	7,645	14,575*	3,524*	1,861*	4,384*
Long-Term Capital (net)	-14,969	-17,700	-6,205	-20,185*	-4,423*	-3,724*	-6,229*
Overall Balance	-4,971	5,177	2,069	-8,332	-1,785	-1,223	-2,254
International Reserves (end of period)	23,262	24,496	24,782	25,208	25,321	25,323	25,208
Japan's Customs Clearance Trade							
Trade Balance	6,900	20,534	7,456	13,530*	3,109	1,855	4,022*
Exports (f.o.b.)	138,831	146,928	69,408	82,506*	14,449	14,299	14,745*
Cars	18,015	19,535	9,766	10,934*	2,305	2,021	1,819*
Steel	15,645	12,843	6,084	6,496*	1,048	1,102	1,146*
Imports (c.i.f.)	131,931	126,393	61,952	68,977*	11,340	12,444	10,723*
Crude Oil	46,274	40,063	20,508	20,350*	3,191	3,554	2,751*
Japan-U.S. Trade							
Trade Balance	12,151	18,181	7,074	14,524*	3,013	2,656	3,032*
Exports (f.o.b.)	36,330	42,829	18,934	27,950*	5,141	5,082	5,223*
Imports (c.i.f.)	24,179	24,648	11,860	13,426*	2,128	2,426	2,191*
Yen-Dollar Exchange Rate							
Tokyo Spot Market (end of period)	Y235.00	Y232.20	---	---	Y226.00	Y231.50	Y237.50
U.S.-Japan Trade							
Trade Balance	-16,778	-19,289	-9,072	-15,453	-2,766	-2,903	-2,473
Exports (f.a.s.)	20,966	21,894	10,041	11,585	1,872	1,987	2,031
Industrial Supplies	9,173	8,734	4,175	4,478	691	726	836
Food and Feed	4,971	5,555	2,430	2,982	527	509	469
Capital Goods	4,434	5,116	2,318	2,774	449	539	450
Consumer Goods	1,356	1,394	687	721	110	115	141
Imports (Customs)	37,744	41,183	19,113	27,038	4,638	4,889	4,505
Automotive Products	12,890	14,919	7,167	9,019	1,372	1,907	1,533
Industrial Supplies	6,795	5,391	2,513	3,532	645	565	543
Consumer Goods	7,842	8,296	3,707	5,185	962	843	863
Capital Goods	9,530	11,896	5,405	8,900	1,594	1,511	1,500

*Preliminary

STATISTICAL SUPPLEMENT

Japanese Economic Indicators

(percentage change from year-earlier period unless otherwise indicated)

	1982	1983	January-May 1983	January-May 1984	March 1984	April 1984	May 1984
Discount Rate (end of period)	5.5%	5.0%	5.5%	5.0%	5.0%	5.0%	5.0%
Outstanding Money Supply	9.2%	7.4%	7.6%	7.9%	8.4%	7.7%	7.6%
Industrial Production	0.3%	3.6%	0.0%	11.3%	10.3%	11.0%	12.5%
Manufacturing Operating Rate	-2.9%	1.6%	-1.9%	9.6%	7.5%	9.4%	11.3%
Number of Bankruptcies	-2.8%	11.9%	5.2%	19.8%	15.5%	17.4%	24.5%
Residential Construction Starts	-0.5%	-0.8%	-0.8%	5.3%*	5.6%	10.9%	16.8%*
Job Openings to Applications (ratio)	0.61	0.60	0.59	0.64	0.64	0.64	0.64
Nominal Wages	4.5%	3.5%	4.9%	4.4%	5.2%	5.4%	4.2%
Labor Productivity	1.0%	4.6%	-0.3%**	10.0%**	9.2%	n.a.	n.a.
Wholesale Prices	1.8%	-2.2%	-1.2%	-0.9%	-1.3%	-0.7%	-0.1%
Consumer Prices	2.7%	1.9%	2.2%	2.3%	2.5%	2.4%	2.0%
Yen-Based Export Prices	3.9%	-6.0%	-5.3%	-1.1%	-1.9%	-2.0%	-0.1%
Yen-Based Import Prices	7.9%	-7.8%	-2.9%	-5.5%	-6.4%	-5.7%	-2.0%

*Preliminary
**Through March of each year only.

For Japan's most recent GNP figures, see JEI Report No. 25B, June 29, 1984.

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REPORT

NO. 34A August 31, 1984

JAPAN'S SOGO SHOSHA: FAST MOVERS IN FAST-CHANGING MARKETS

Summary

Japan's general trading companies, known as *sogo shosha*, continue to play an important role in the domestic economy and an increasingly important global role. Events of the past 15 years have tested the mettle of these organizations, forcing them to adapt to new conditions and develop new strategies. Not only have the *sogo shosha* altered the composition of products traded, but they have also moved into non-traditional activities, such as third-country trade. Although such moves indicate the slow internationalization of the trading companies, they remain distinctly Japanese in their attitudes and operations. This report provides an update on these companies, analyzes the problems they face and discusses their responses. (Previous reports on the subject appeared in Council Reports No. 31, September 28, 1979 and No. 36, November 2, 1979.)

What Makes a Sogo Shosha?

The general trading companies have been extensively analyzed by Japanese and foreign writers, yet what exactly separates the 16 *sogo shosha* from the country's 6,000 other trading firms remains a topic of debate. For that matter, the difference between *sogo shosha* and large, export-oriented companies such as Toyota Motor Corp. is often unclear. Though the *sogo shoshas* serve primarily as trade intermediaries, it is their other operations that set these companies apart. For the purposes of this report, a *sogo shosha* will be defined by three major characteristics and three minor ones.

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Number of Products - While the phrase "missiles to instant noodles" used to describe the trading activities of sogo shosha is an exaggeration, it expresses a valid concept. At the heart of the general trading company is the ability to handle a large number of products for customers in far-flung markets. On the export side, it functions as a one-stop channel for Japanese companies which lack the resources to handle global or large-scale transactions. On the import side, it taps multiple supply sources to insure the steady availability of vital products. These firms do more than simply tap supplies, however; they are intimately involved in developing supply sources through overseas investments.

Supply Creation - This secondary trait helps explain the depth of a trading company's strength. In the 1950s and 1960s, sogo shosha traded heavily in basic commodities, including foodstuffs, fibers, ores and petroleum, all of which followed boom and bust cycles or were subject to political constraints. To safeguard their contracts, sogo shosha began to invest in natural resource exploration and development projects abroad. These activities, beside providing a steady flow of inputs to feed the ravenous Japanese economy, have played an important role in the growth of the global economy and have been particularly valuable to developing countries.

Market Information and Expertise - With 1,227 offices and 24,370 staffers operating in 77 countries, sogo shosha have their ears open when and where it counts and can provide personnel trained in the idiosyncrasies of nearly every market. The time and money invested in building this information network is clearly one of the trading companies' primary assets. Information about current and future customer needs as well as the performance of producers in different fields yield insights on market opportunities and risks. Such information is not easily available to the majority of Japanese or foreign firms -- another factor in the success of sogo shosha. This information is put to another use beyond simple transactions.

Trade Opportunity Creation - The trading firm can use its information and personnel networks to generate business without waiting for buyers or sellers to appear. By creating new trading arrangements or encouraging the production of new products (or in some cases taking production into its own hands), the companies can stay ahead of market trends and adapt to changes. New food products or consumer goods are often introduced by the sogo shosha to meet changing tastes and preferences.

Trade Financing - The final characteristic that differentiates the sogo shosha from other trading companies is their ability to arrange financing to facilitate and foster trade. Analysts point to the rigid nature of the Japanese financial system as one reason these companies were hired as export-import agents by so many Japanese firms. The giant general traders act as buffers between banks, which demand collateral and impeccable credit ratings, and smaller firms, which lack these requisites yet need flexible financing to engage in international trade.

Both the banks and the trading firms' clients benefit from this arrangement. Financial institutions extend loans to the trading companies,

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freeing the banks from the necessity of compiling risk information about domestic and foreign firms. Trading company clients get access to credit they would not normally have. Because sogo shosha are not regulated by the Ministry of Finance or the Bank of Japan, they can be much more flexible in terms of interest rates, repayment plans and rescheduling of loans. One characteristic that allows them to operate large financial networks and act as buffers is their policy of spreading risk not only among their own transactions, but also among the members of the economic group to which the major sogo shosha belong.

Risk Allocation - By pursuing diversified operations and attracting a large number of clients, these firms are able to absorb the repercussions of the small number of inevitable failures. The traders' vaunted information network does provide constant input on their clients' financial health and prospects but collapses or failures are not uncommon. Sogo shosha evaluate the risk of each venture and the soundness of each partner and try to balance high- and low-risk projects. To diversify the risk, other members of the trading firm's group may be involved in the transaction. Marubeni Corp. (the Fuyo Group) may rely on group leader Fuji Bank Ltd. for financing, use group member Showa Line Ltd. ships for transport, or ask Oki Electric Industry Co., Ltd. to provide components or engineering services. Thus the financial strength of the entire group can be utilized to support transactions.

Several additional points are pertinent:

- Sogo shosha usually do not deal in products that require after-sales service. Most high-visibility Japanese products, such as automobiles and electronic products, are marketed by the manufacturers.

- Profit margins are usually low by U.S. standards -- usually less than half of one percent of total sales.

- The developing countries are still the trading companies' major partners because of the heavy share of commodities in their trade mix, although this is slowly changing.

- Sogo shosha do not maintain close ties to the Japanese government, nor are they under the jurisdiction of the Ministry of International Trade and Industry (MITI). The major traders often cooperate with MITI, however, particularly in energy imports.

- Sogo shosha are by no means solely involved in the export-import business. About half of their sales are made in the domestic market, and a growing portion of business involves offshore or third-country trade (see Table 1).

In sum, a picture emerges of the sogo shosha as complex, widespread organizations with excellent channels of communication and deep financial resources.

Sogo Shosha and the Domestic Economy

Domestic transactions accounted for 40.2 percent -- $140.1 billion -- of the combined sales generated by sogo shosha in FY 1982 (April 1, 1982 - March

31, 1983). Overall sales of $348.5 billion were equivalent to about 33 percent of gross national product (GNP), although sogo shosha sales figures include both intermediate transactions and final goods. The trading companies handled 52.7 percent of Japan's exports and 62.2 percent of its imports (see Table 2). With 462 offices and 57,355 employees in Japan alone, these companies extend tendrils into nearly every locality and market in the country (see Table 3).

In terms of consolidated sales by Japanese companies for FY 1983 (ended March 31, 1984), sogo shosha are still the heavyweights. Mitsui & Co., Ltd. was first with sales of Y16.2 trillion ($66.3 billion), followed by Mitsubishi Corp. at Y15.8 trillion ($64.8 billion), C. Itoh and Co., Ltd. with Y13.5 trillion ($55.2 billion), Marubeni Corp. posting Y12. trillion ($49.3 billion), Sumitomo Corp. racking up Y11.8 trillion ($48.3 billion) and Nissho Iwai Corp. recording Y8.3 trillion ($34 billion) (see Table 4).

In terms of pre-tax consolidated profits, however, none of these companies makes it into the top twenty. Compared with profit-leader Matsushita Electric Industrial Co., Ltd.'s FY 1983 earnings of Y498 billion ($1.87 billion), Mitsubishi netted Y26.8 billion ($109.7 million), Mitsui earned Y8.9 billion ($36.4 million), Marubeni made Y7.3 billion ($29.9 million) and C. Itoh chalked up Y4.6 billion ($19 million). Profits as a percentage of gross consolidated sales are clearly extremely low: in Mitsubishi's case, just 0.169 percent, Marubeni only 0.0606 percent, Mitsui a bare 0.0548 percent and C. Itoh a tiny 0.0344 percent.

Domestic operations are much more profitable than external dealings. Sumitomo's profits were 0.59 percent in FY 1982, compared with a 0.016 percent loss on overseas operations. The comparable figures for Mitsui were 0.64 percent and 0.004 percent; for Marubeni, 0.81 and a 0.0034 percent loss; and for C. Itoh, 0.47 percent and 0.068 percent (FY 1983 figures were 0.47 percent and 0.037 percent).

These companies handle transactions from start to finish -- mining or harvesting the raw inputs, refining, manufacturing, transportation and distribution. Their influence on certain markets is so dominant that they were subject to antitrust investigations in the mid-1970s. Even though stronger antitrust laws were passed in 1977, sogo shosha have continued to operate in the same fashion. Although concerns over their economic weight still exist, they are key organizations in Japan's economy, not only because of their size, but also because of the products they handle.

Sogo Shoshas' Bread and Butter: Commodities Trading

Sogo shosha originally concentrated on high-volume operations in foodstuffs, fibers and textiles. By World War II they had moved into metals, coal and petroleum to fuel Japan's rapid industrialization. In the case of petroleum, trading firms today handle a major share of the developing, extracting, buying and shipping for Japan's oil refiners. Imports of liquefied natural gas are also provided by these traders, which risked developing a resource that the oil companies had ignored.

Despite the changes in the Japanese economy toward high-technology manufactures, the need for basic commodities such as food, fuels and industrial inputs will continue, and the trading companies will serve as the main conduit for these goods. In FY 1982, fuels and chemicals accounted for 28.9 percent of their combined sales, followed by machinery (23.1 percent), metals (23 percent), foodstuffs (11.5 percent), textiles (7.1 percent) and miscellaneous products (6.4 percent). Each company tends to emphasize one area over the other (see Table 5), although trading mixes can vary significantly from year to year because of economic conditions.

Trading in these commodities requires a great deal of capital not only for purchases but also for development and transportation costs. It entails the ability to tap multiple supplies, and a willingness to accept significant risk for low profit margins. As in manufacturing, there are economies of scale in trading which sogo shosha rely on to break even. The margins on trade are not large, as mentioned previously, and a prolonged downturn in the world or domestic economy can imperil even the largest general trader.

Problems of the 1980s

A recurrent topic in Japanese economic literature attributes the imminent demise of sogo shosha to changing economic conditions and increasingly complex patterns of trade. In the early 1960s, it was thought that these giants could not adjust to the demands of an exploding economy; in the 1970s, the oil shocks were said to ring the death knell of the sogo shosha; and in the 1980s, the shift toward high technology and financial liberalization is supposed to signal the twilight of the general traders.

The pessimists cite the following developments:

- The changes in economic structure caused by the rapid rise in the price of petroleum during the 1970s are now well entrenched and have led to a fundamental shift in the attitude toward energy consumption. Conservation efforts and the shift from energy-intensive manufactures such as steel and petrochemicals have hit the sogo shosha hard. Demand for oil as well as other industrial energy sources and raw material inputs such as iron has been weak for several years. General traders plan their operations to compensate for short-term slumps, but recently they have been unable to profit from earlier investments in developing sources of supply, depressing their earnings significantly.

- On top of this, disappointing economic growth, both at home and abroad, has reduced demand in some of the trading companies' strong product areas. Investments in capacity made in earlier years based on higher growth rates have come online at an inopportune moment. Although traders do not face an overhang of capacity, they do face the problem of adjusting their project profit estimates to match reality.

- For the trading firms, the leading growth sectors since 1980 have been high technology and finance, both areas outside of their traditional focus. Because high technology goods demand specialized expertise and a major commitment to after-sales service, many Japanese observers claim that the sogo shosha will be unable to adapt and that manufacturers will handle more and more of their own overseas business.

- Liberalization of Japanese financial markets has and will erode the trading companies' financial function. The limited reforms already implemented have encouraged companies to seek financing from overseas markets or from banking institutions that now actively seek out borrowers. The foreign exchange restrictions imposed until 1980 that made it difficult for smaller companies to finance trade deals have been lifted, and many companies are navigating their own way through the treacherous international waters.

- Changes in economic structure have been accompanied by changes in consumer tastes. The staples that used to please Japanese consumers have fallen into disfavor. Today's consumers are attracted by quality and individuality. The standard of living is so high as to significantly increase the demand for luxury goods, a trend to which the general traders have been slow to adjust.

- Finally, there have been significant and rapid changes in the world economy, some ~~of~~ which are attributable to the *sogo shosha*. The swift industrialization of a number of third-world countries has eroded Japan's competitive advantages in many industries that are important trading company customers. Steel makers in Brazil and Korea are more competitive in low-end products than their Japanese counterparts, not only because of lower labor costs but also because they imported modern processing technology -- with the help of the trading companies. *Sogo shosha* have therefore tried to move away from raw materials into textile, steel, nonferrous metal and petrochemical intermediates, buying them from rising third-world manufacturers and selling them to Japanese industrialists that concentrate on high value-added products. As in other cases, *sogo shosha* have had difficulty adjusting their operations and retraining their personnel to deal in these new areas.

Of the factors cited by the pessimistic school of thought, three seem to present the most serious challenge to continued *sogo shosha* growth: the movement of manufacturers toward handling more of their own trading; competition from financial institutions in trade financing; and the difficulty trading companies are having in shifting their trading mixes to high technology goods. As serious as these problems are, however, current prophesies of the downfall of the *sogo shosha* are no more likely to come true than the earlier ones, in part because of the steps the companies are taking to keep abreast of trends.

The Sogo Shosha Stay in Step

After stumbling through the last few years, the trading companies have regained their balance and are now moving quickly to reposition themselves in future markets. They are branching out into new areas, reshuffling priorities and seeking innovative answers to their problems. Nonetheless, commodities trading will continue to be at the center of their operations, though the term commodities may encompass new goods.

Modernizing Traditional Lines - Slower growth has led the trading companies to streamline their energy and industrial input operations. Investments in new supply sources are still being made, although decisions are based on lower demand estimates. Japan will always have to import most of its food, energy and other industrial raw materials, and the trading companies will continue to meet these needs. By utilizing modern information and communications technologies, the efficiency of commodities operations should be increased, permitting higher profits or narrower margins.

The traders are building on this foundation by branching out into new products. The shift toward dealing in intermediates rather than raw materials has already been cited as one example of this trend. As the technology embodied in intermediates has declined relative to the level of technology inherent in cutting-edge products, these intermediates tend to take on the characteristics that sogo shosha can best exploit; such products might be described as high-volume, mass-manufactured, low technology goods. Thus the many years of experience they have accumulated trading commodities is being applied with slight modifications to these new products.

Exports of plant equipment, a mainstay for the last decade, have drooped in the last three years, falling from a peak of $14.76 billion in FY 1981 to $8.31 billion in FY 1983. While the world recession shares part of the blame, the government of Japan had also stopped underwriting export insurance. The Japan Foreign Trade Council, an organization of major sogo shosha, has urged the government to increase funds for export insurance from Y6 billion ($25 million) in FY 1984 to Y200 billion ($830 million) and to provide more flexible financing to help in countering the mixed credits being offered by other countries. While MITI has just announced that it will restart its plant export insurance system, austere budget policies are likely to prevent any drastic increase in support.

Third-Country Trade - Offshore or third-country trade with non-Japanese clients and products is also receiving increased attention. In FY 1978, third-country trade constituted only 9.3 percent ($22.7 billion) of total sogo shosha business, but it had risen to 12 percent by FY 1980 and 14.2 percent by FY 1982. The importance of third-country trade to company operations varies widely, ranging from 8.6 percent for Sumitomo to 22.5 percent for Nissho Iwai in FY 1982. Sogo shosha are finding that their expertise and experience are strong selling points, particularly in developing and communist bloc nations.

Small third-world countries find it efficient to use trading firms for the same reasons small Japanese companies do: for only the incremental cost of trade services, the client has access to global information, personnel and credit resources. Countries that rely on a few export products often find it difficult to purchase a wide variety of imports because of weak export markets or scarce buyers. A trading company can help relieve these problems by acting as a steady customer and full product-line supplier, trading bananas for ball bearings. The information resources, contacts and financial support trading companies offer are important to a developing country in landing a contract or attracting investments.

China and the Soviet Union have also proved to be good clients. China has negotiated numerous projects with Japanese traders, usually for development of agricultural resources, turnkey plants or transportation projects. The ability to provide a package deal for projects like these has been very attractive to Chinese planners since negotiations are held with only one party. The Chinese cannot match the project management expertise of Japan's traders, and with Beijing's new emphasis on employing free-market efficiencies, they welcome the service. The companies have been less successful at contracting for Chinese exports as most Chinese manufacturers have favored going it alone.

The Soviets, on the other hand, have been more willing to let Japanese trading companies manage export shipments. While exact data are hard to come by, the value of Soviet trade handled by the Japanese companies is estimated at between $1 and $1.5 billion a year. Hopeful that the experience of handling Soviet petroleum exports to Western Europe has generated a solid relationship, Moscow is interested in engaging the giant traders to help develop its Siberian resources, citing the quality of service provided and the ability to arrange transactions using the currencies the Russians hold.

High Technology Trade - Computers and software have received much attention from Japan's trading giants, nearly all of which have contracted to market imported devices -- usually American -- in Japan. Since they face stiff competition from the country's indigenous computer industry, traders seek to offer highly specialized systems, hoping to carve out a niche by offering state-of-the-art equipment for computer-aided engineering, design and manufacturing. For example, Nichimen Corp. tied up with Symbolics Inc. of Boston to market the U.S. company's artificial intelligence hardware and software in Japan. Other traders have signed similar agreements, hoping to capitalize on the advanced software available from U.S. companies to gain a foothold in the rapidly growing Japanese office automation market.

Biotechnology has also caught the eye of many corporate planners, who see an opportunity to get in on the ground floor of these ballooning industries. Building on their links to companies moving into biotechnology, traders have poured money into domestic research, but have also struck deals with foreign companies in the field. As products mature to the marketing stage, the traders stand ready to handle the factory-to-market segment of the sales process. Mitsui has organized a research group which includes Mitsui Toatsu Chemicals Inc., Mitsui Sugar Co., Ltd. and Taito Co., Ltd. to develop polysaccharide products. Sumitomo and Yamasa Shoyu Co., Ltd. are launching a joint venture called Japan Immuno Monitoring Center, which will offer lymphocite analysis services using cell analyzers and monoclonal antibodies.

Changes in U.S. drug laws will soon allow earlier marketing of generic versions of new and existing proprietary medicines. Traders see great potential in this area because of the weak international operations of Japanese pharmaceutical firms.

Services Trade - The sogo shosha have jumped head first into the domestic telecommunications field. When the Japanese domestic market is liberalized on April 1, 1985, these companies will be able to provide advanced digital communications equipment and/or services to companies that are computerizing their operations. This industry may provide a bridge to ease the way into other service industries, which is one reason the trading companies are not concentrating on simply supplying the telecommunications hardware.

Mitsui, for instance, will head a group marketing American Telephone and Telegraph Co.'s value-added network (VAN) software and is offering a Canadian firm's videotex system; Marubeni hopes to lay cable TV lines and is offering McDonnell Douglas Corp.'s Tymshare Inc. telecommunications service in Japan;

Sumitomo is pondering a VAN in cooperation with NEC Corp.; Mitsubishi is involved in VAN and videotex experiments in tie-up with IBM Japan Ltd. and Nippon Telegraph and Telephone Public Corp. (NTT); and C. Itoh is looking into VAN service and will join a venture to establish a common-carrier rival to NTT.

In addition, many trading companies are considering utilizing their vast information networks to compile electronic data bases on a wide variety of subjects: economic statistics, country or company assessments, and even travel services. They are considering going as far as offering engineering, marketing or management services via electronic networks, thus repackaging one of their most valuable assets in a modern format. New communications technologies and computer equipment therefore offer these firms not only a means to improve their traditional operations, but also open new opportunities to participate in the high-growth industries of the 1980s and 1990s.

Enhanced financial services reveal another area where the general traders are adapting to new situations. While Japan's financial liberalization measures mean more competition for trade financing, they also present additional opportunities for these financial giants to pursue new customers. Loans for non-trade purposes are becoming more common and purely financial transactions are also on the increase. The deregulation of the Euroyen market has created demand for overseas financial expertise. The elimination of the real demand rule in Japanese foreign exchange markets also allows the trading companies to more fully hedge their foreign exchange transactions, and may even lead them to perform arbitrage functions.

Conclusion

The trading companies remain a keystone of Japan's economy, both in terms of foreign trade and the domestic economy. Despite the thin years of the late 1970s and early 1980s, these firms will maintain their ability to deal in basic items such as foodstuffs, fuels and industrial supplies. And they will continue to defy analysts who predict their demise by building on their strengths using modern technology, exploring new areas of trade while preserving old markets and customers. It is very likely that export-import trade as a percentage of operations will continue to decline as third-country trade and services trade develop. Japan's general traders are proving to be fast movers in fast-changing markets.

For further information contact Jon Choy.

The views expressed in this report are those of the author and do not necessarily represent those of the Japan Economic Institute.

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The next issue of JEI REPORT will appear on September 14, 1984.

Table 1: Sogo Shosha Trade by Type

(percent of total business)

Fiscal Year	Exports	Imports	Offshore	Domestic
		1a. All Sogo Shosha		
1978	20.9%	19.0%	9.3%	50.8%
1979	19.1	24.4	10.6	45.9
1980	20.2	24.3	12.0	43.5
1981	21.2	24.0	13.4	41.4
1982	21.5	24.1	14.2	40.2
		1b. Mitsui & Co., Ltd.		
1981	18.0	22.0	21.0	39.0
1982	21.0	21.0	20.0	38.0
1983	20.0	24.0	20.0	36.0
		1c. Marubeni Corp.		
1982	26.4	19.0	18.6	36.0
1983	28.8	19.9	15.9	35.4
		1d. C. Itoh & Co., Ltd.		
1982	17.2	20.7	16.7	45.4
1983	16.3	18.8	19.1	45.8
		1e. Sumitomo Corp.		
1981	21.4	16.6	10.0	52.0
1982	26.3	15.3	8.4	50.0
1983	25.8	15.8	8.6	49.8

Sources: The Japan Foreign Trade Council, Inc., The Sogo Shosha: A Statistical Guide; company annual reports.

Table 2: Share of Japan's Trade Handled by Sogo Shosha

(in millions of dollars; percent of total)

	Exports			Imports		
Fiscal Year	Total	Value	Share	Total	Value	Share
1978	$97,543	$49,552	50.8%	$79,343	$46,098	58.1%
1979	103,032	53,474	51.9	110,672	68,506	61.9
1980	129,807	69,836	53.8	140,528	84,176	59.9
1981	152,030	77,383	50.9	143,290	87,264	60.9
1982	138,831	73,164	52.7	131,931	82,061	62.2

Table 3: Sogo Shosha Offices and Personnel by Region

(as of January 1984)

Country or Region	Offices*	Personnel
Japan	462	57,355
North America	178	5,284
Central and South America	169	2,543
Asia and Oceania	401	9,170
Middle East/Africa	272	3,400
Europe (includes Eastern Europe and USSR)	207	3,973
Total	1,689	81,725

* Representative or subsidiary offices.

Source for Tables 2 and 3: The Japan Foreign Trade Council, Inc., The Sogo Shosha: A Statistical Guide.

Table 4: Sogo Shosha Sales and Rankings, FY 1983

(in millions of yen)

Company	Sales	Percentage Change over FY 1982
Mitsubishi Corp.	Y68,469	7.0%
Mitsui & Co., Ltd.	49,411	30.9
Sumitomo Corp.	48,622	-20.5
Nissho Iwai Corp.	21,755	82.5
Marubeni Corp.	20,823	20.0
C. Itoh & Co., Ltd.	12,436	-26.4
Nichimen Corp.	10,196	12.8
Toyo Menka Kaisha, Ltd. (Tomen)	8,060	33.9
Itoman & Co., Ltd.	4,821	39.9
Kanematsu-Gosho Ltd.	2,587	30.3

Source: Toyo Keizai, Shukan Toyo Keizai, No. 4520, May 5, 1984.

Table 5: Sogo Shosha Trade by Group

(percent of total trade)

Commodity	Fiscal Year					
	1978	1979	1980	1981	1982	1983
			1a. All Sogo Shosha			
Fuels & Chemicals	18.9%	24.2%	27.9%	28.0%	28.9%	n.a.
Metals	28.3	27.7	25.4	24.5	23.0	n.a.
Machinery	20.8	17.6	19.9	21.5	23.1	n.a.
Foodstuffs	12.7	12.0	12.5	12.4	11.5	n.a.
Textiles	10.2	8.4	7.5	7.4	7.1	n.a.
Other	9.1	10.1	6.8	6.2	6.4	n.a.
			1b. Mitsubishi Corp.			
Fuels & Chemicals	27.0	25.0	22.0	28.0	27.0	28.0%
Metals	28.0	29.0	27.0	24.0	24.0	23.0
Machinery	18.0	19.0	16.0	17.0	21.0	20.0
Foodstuffs	13.0	13.0	13.0	13.0	12.0	13.0
Textiles	*	5.0	4.0	*	*	*
Other	14.0	10.0	9.0	18.0	16.0	16.0
			1c. Mitsui & Co., Ltd.			
Fuels	7.0	7.0	13.0	12.0	18.0	21.0
Chemicals	12.0	13.0	14.0	12.0	11.0	11.0
Metals	31.0	31.0	31.0	29.0	28.0	28.0
Machinery	19.0	18.0	15.0	17.0	18.0	16.0
Foodstuffs	14.0	14.0	14.0	16.0	15.0	16.0
Textiles	6.0	6.0	5.0	*	*	*
Other	9.0	11.0	8.0	14.0	10.0	10.0
			1d. C. Itoh & Co., Ltd.			
Fuels & Chemicals	26.0	24.0	30.0	30.0	31.0	33.0
Metals	17.0	20.0	19.0	17.0	17.0	15.0
Machinery & Construction	20.0	20.0	17.0	21.0	21.0	22.0
Foodstuffs	13.0	13.0	13.0	16.0	12.0	13.0
Textiles	19.0	18.0	15.0	*	*	*
Other	6.0	6.0	6.0	18.0	19.0	18.0
			1d. Marubeni Corp.			
Fuels & Chemicals	14.0	16.0	21.0	23.0	25.0	27.0
Metals	24.0	25.0	25.0	21.0	20.0	19.0
Machinery & Construction	26.0	25.0	23.0	21.0	21.0	26.0
Foodstuffs	14.0	12.0	13.0	17.0	17.0	17.0
Textiles	13.0	13.0	10.0	17.0	16.0	17.0
Other	9.0	9.0	9.0	3.0	3.0	n.a.

* Included in other category.

Sources: Japan Company Handbook; The Japan Foreign Trade Council, Inc., The Sogo Shosha: A Statistical Guide.

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MITI Bolsters Support for High Technology

The Ministry of International Trade and Industry (MITI) is increasingly focusing its activities on the high technology sector in response to the evolution of the Japanese economy. Over the past few months, MITI has announced several projects designed to provide improved support for public and private research in key emerging technologies. More significantly, the ministry has unveiled an ambitious plan to provide greater tax incentives to firms engaged in research and devlopment in selected areas. While these moves enjoy widespread rhetorical support, some very tough financial obstacles must be scaled before MITI's plans can be implemented.

Fostering research and development is certainly not a new task for MITI. In 1966 MITI's research arm, the Agency of Industrial Science and Technology (AIST), initiated the National Research and Development Program (NRDP) to underwrite complete R&D projects that the government considers to be of the highest national priority but that are too expensive, risky and long term for the private sector to undertake on its own (see JEI Report No.

- Outlays for stockpiling strategic metals would jump 29 percent to $5.9 million.
- A 4.5 percent drop is planned for small business promotion projects.

While impressive sounding, nearly all of MITI's initiatives must be approved by the Ministry of Finance, the cabinet and the Diet before being funded and implemented. Indeed, Prime Minister Nakasone has thrown his personal support behind high technology R&D, but the scramble for funds may make a shambles of these well-laid plans. Although there are political obstacles in the way of increased spending, they are not insurmountable, and R&D spending is one category that is free of the negative ceiling applicable to FY 1985 budget requests. MITI has often floated trial balloons expounding wonderful plans, only to have them disappear when actual budgets are hammered out. This may again be the fate of a number of the agency's proposals. The ministry's actions over the next few months will indicate what it considers its highest priorities.

Jon Choy

Aging Capital Stock Worries Japan

Most observers would agree that one reason for Japan's excellent economic track record is its modern plant and equipment. There is increasing evidence, though, that the country's capital stock is aging. According to estimates by one of Japan's major business newspapers, the average age of the capital stock rose from 5.01 years in FY 1974 to 5.67 years in FY 1983. While this increase of over half a year may not sound devastating, it has caused worried debates in Japan when compared with the same figures for the United States. Citing Standard & Poor's Corp. estimates that the average age of the U.S. capital stock had improved from 7.26 years in 1974 to 5.42 years in 1983, a host of authorities are now calling for stepped-up capital spending and improved investment incentives.

The average age of plant and equipment for both countries is summarized in the following table and highlights some surprising changes. Whereas Japan's capital stock was newer in every listed sector in FY 1974 (with the possible exception of semiconductor equipment), by 1983, four U.S. industries -- oil refining, cement, shipbuilding and motor vehicles -- had newer plant and equipment than their Japanese counterparts. The American automotive industry, the most significant of these sectors, now has a capital stock that averages 0.7 years younger than its Japanese competitor. How much, if any, recent Japanese investments in U.S. automotive production facilities affect this comparison is not clear.

While the Japanese lead is still large in some industries -- 3.84 years in steel, 2.90 years in textiles, and 2.32 years in precision machinery -- the average gap for major manufacturing industries has fallen from 3.16 years in FY 1974 to just 0.71 years in FY 1983. The reason for this is clear: while nearly every U.S. industry (except spinning and weaving, semiconductors and precision machinery) upgraded its equipment, almost every Japanese industry allowed its equipment to age.

Average Age of the Capital Stock in the United States and Japan

(in years)

Japan			United States		
Fiscal Year:	1983	1974	Calendar Year:	1983	1974
All industries	5.67	5.01	All industries	5.42	7.26
Food processing	5.72	4.73	Food processing	6.28*	7.92
Textiles	7.17	5.43	Spinning & weaving	10.07	9.24
Pulp & paper	7.77	5.68	Pulp & paper	7.84	9.55
Chemicals	6.38	4.76	Chemicals	6.63	8.90
Pharmaceuticals	4.95	4.82	Pharmaceuticals	5.86	7.66
Oil	6.23	5.37	Oil refining	5.32	7.94
Rubber products	5.39	3.96	Cement	5.94	10.21
Glass & cement	6.18	5.03	Iron & steel	10.93	13.60
Iron & steel	7.09	4.96	Machinery	6.28	7.18
Nonferrous metals	5.92	4.90	Electric appliances	5.91	7.44
Nonelectric machinery	5.26	4.72	Semiconductors	3.10*	2.76
Electric machinery	3.67	4.10	Computers	4.22*	4.75
Shipbuilding	7.44	4.45	Shipbuilding	5.27	11.82
Motor vehicles	4.22	4.18	Motor vehicles	4.15	6.01
Precision machinery	3.56	4.15	Precision machinery	5.88	5.38
Manufacturing	5.47	4.75	Standard & Poors 400	5.40	6.95

*Figures for 1982.

Sources: Nikkei Economic Electronic Databank System for Japan; U.S. figures, Standard & Poor's Corp.

The Ministry of International Trade and Industry, which also conducts an annual study of 14 countries' capital stocks, agrees that Japanese industry is not keeping pace with the United States in modernizing production facilities. Despite a poor performance in 1982 by U.S. firms in terms of sales and return on net worth, the U.S. firms surveyed by MITI out-invested their Japanese competitors. The ratio of tangible fixed assets per regular employee, or capital equipment ratio, jumped 15.2 percent among U.S. firms, compared to only 5.7 percent in Japan. This is due mainly to the slower growth of Japanese tangible fixed assets -- 6.8 percent in 1982 versus an 8.2 percent increase in the United States.

All this has led to calls for bigger depreciation allowances in Japan and more tax credits for new investment. It has also generated a debate about comparable corporate tax rates. Major Japanese business organizations claim that they are taxed much more heavily than their American or British counterparts, although the Ministry of Finance (MOF) denies this, citing the idiosyncracies of each national tax system.

In any case, MOF is coming under increasing pressure to ease its austerity guidelines for the FY 1985 budget and give in to at least some requests. With its eye on the burgeoning national debt and the potential for losing billions of dollars in revenue, however, MOF is not in a generous mood.

Officials point to an August survey that shows industry is planning to increase capital investments 7.8 percent in FY 1985 (16.9 percent in manufacturing and 1.9 percent in non-manufacturing) on top of a 5.9 percent increase this fiscal year as evidence that no new tax breaks are necessary. The issue promises to come under discussion as the Liberal Democratic Party presidential elections approach.

Jon Choy

September May See Action on Trade Legislation

The 98th Congress may yet enact a major package of trade measures before adjourning for the November elections. In anticipation of the Senate leadership's announced intention to devote one day of debate to trade legislation, on July 31 the Senate Finance Committee approved a package of trade measures, including renewal of the Generalized System of Preferences (GSP), designation of free-trade-zone status for Israel, and 33 miscellaneous tariff proposals, that it will offer as an amendment to H.R. 3398 when this bill is considered on the Senate floor. H.R. 3398 is the House-passed tariff measure that has been amended by S. 144, the Danforth reciprocity bill.

There are also indications that Senate Finance may put together another package of trade measures that could conceivably be offered as a second amendment to H.R. 3398. It would include elements of the following bills: S. 2952, a streamlined version of the TRAC bill (S. 2139), aimed at improving the operation of U.S. antidumping and countervailing-duty laws and cosponsored by Senators John Heinz (R, Pa.), Daniel P. Moynihan (D, N.Y.) and George Mitchell (D, Me.); S. 2963, the Small-Business Trade Remedies Act of 1984, introduced by Senator William Cohen (R, Me.); S. 2618, the Telecommunications Trade Act of 1984, introduced by Senator John C. Danforth (R, Mo.); and S. 2845, another Danforth measure that outlines the criteria the International Trade Commission (ITC) must use to determine injury to domestic manufacturers from imports. The committee has asked for public comment on all of these bills by September 5, 1984.

- S. 2963, which Senator Cohen's staff drafted in close consultation with Senator Danforth's office, would create a Small-Business Trade Assistance Office in the Commerce Department. The new office would provide technical assistance to eligible small businesses to enable them to file petitions and applications for the remedies available under U.S. trade laws. It is particularly interesting to note that the bill also contains several of the administration-backed provisions contained in the House-passed trade remedies bill (H.R. 4784), including: (1) the elimination of interlocutory appeals; (2) a provision allowing industry-labor coalitions to be treated as interested parties in a case; (3) a more routine release of confidential information in trade law proceedings; (4) a provision allowing one hearing for antidumping and countervailing-duty cases filed for the same merchandise from the same country within six months of each other; and (5) permission for the administering authority to use sampling and averaging in determinining U.S. price and foreign market value in antidumping cases.

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JAPAN'S FOREIGN AID POLICY: AN ANNUAL UPDATE

Summary

At the tenth summit meeting of industrialized nations in London earlier this summer, Prime Minister Yasuhiro Nakasone called for a concerted effort to support the economic development efforts of the debt-ridden developing world. His active role on this issue, plus Tokyo's dramatic increase in official development assistance (ODA) during a period of stringent budget guidelines, at first glance suggest a dramatic swing in Japan's foreign aid policy. But Japanese sources emphasize that developments in recent years in terms of disbursements, quality of aid, regional distribution, and cooperative efforts with other major donors actually reflect the evolution and fine-tuning of its aid efforts. Moreover, it is an evolution that is best viewed within the context of policy changes in the donor community in general, aimed at expanding assistance and donor collaboration in the developing world.

Tokyo views its two consecutive aid-doubling plans (1977-80 and 1981-85) as commitments to fulfill its international responsibility, and although it may be constrained in attaining the 1985 goal in the next two years by budget limitations, Tokyo will nevertheless make its best effort to expand ODA to meet this $21.4 billion target.

The Evolution of Japan's Aid Policy

Japan's foreign aid policy has changed dramatically during the past two decades, developing from a position that linked aid to export promotion and overseas investment to its current policy that takes both humanitarian and political/security considerations into account. Aid policymakers generally identify several distinct phases of this evolution: war reparations, from the mid-1950s to 1965; tied aid to promote exports, particularly to Southeast Asia, from the mid-1950s through the early 1970s; an ambitious effort to improve ODA performance through the untying of assistance; and from the late 1970s to the present, the emergence of a policy that emphasizes meeting basic human needs in developing countries and countries located in regions of strategic importance to the Western alliance.

William L. Brooks and Robert M. Orr Jr., in their study of Japan's foreign aid policy, suggest that Tokyo's aid program grew directly out of its role as a former colonial power, which explains why a consistently high percentage of funding has gone to the countries of Southeast Asia. This geographical bias is still apparent, with approximately 70 percent of ODA targeted to this region. Reparations negotiations between Japan and the Southeast Asian nations provided $500 million to the Philippines and $400 million to Indonesia over a 20-year period, $20 million to Burma for ten years, and special compensation to Thailand. In sum, reparations totaled a relatively modest $1 billion over a 20-year period, or less than 2 percent of Japan's national budget over this time -- outlays that yielded significant economic benefits since the aid provided was by and large tied to procurement in Japan.

During this period, however, Japan viewed itself as a developing country and was quite open about its intent to cultivate export markets as well as secure access to raw materials. Throughout the 1960s, when the Japanese economy grew by approximately 10 percent a year, export credits and private aid still constituted an estimated 65 percent of Japan's total aid flows. In part as a result of international criticism of this heavily tied assistance -- and in view of Japan's rapidly emerging global economic leadership -- Tokyo sought to improve the quality and regional distribution of its aid. By the latter part of the 1970s, it led other major donors in the untying of assistance. Shaken by the first oil crisis, Tokyo also recognized the importance of dispersing aid to countries outside of its traditional sphere, and began targeting more assistance to some of the countries of the resource-rich Persian Gulf.

The most recent stage in the evolution of Japan's aid policy began in 1977, when it embarked on its first ODA-doubing plan. A key factor in this decision was the growing body of opinion that Japan should make a concerted effort to carve out an appropriate world leadership role. Since Tokyo, for constitutional reasons, has concentrated its military efforts on self-defense, the development area is a politically palatable alternative. Then, too, the Japanese economic success story serves as a role model for other developing nations.

Between 1977 and 1980 the government exceeded its aid-doubling goal, bringing aid to a level of $3.3 billion. It also substantially increased the grant and technical assistance elements of its aid. Grants rose to 77.7 percent in 1979, which, although far below the Organization for Economic Cooperation and Development's (OECD) Development Assistance Committee (DAC)

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average that year of 90.7 percent, was nevertheless a significant increase when compared to 1977's 70.2 percent. The percentage of ODA to gross national product (GNP) rose to 0.32 percent in 1980, but was still below the DAC average of 0.37 percent.

Tokyo also continued to broaden its regional disbursements. In 1973, for example, 88 percent of ODA funds went to Asia, while only 2.6 percent went to Africa and 1 percent to the Middle East. By 1977, this distribution had shifted; Asia received 60 percent, Africa 17.1 percent and the Middle East 12.4 percent. In 1980, Tokyo devised its so-called 7-1-1-1 formula: 70 percent of development aid to Asia, with the rest divided fairly equally among the countries of Africa, Latin America and the Middle East. In general, it adhered to this format fairly consistently in subsequent years.

Concurrently, Japan began to espouse the concept of comprehensive security. The idea first emerged in 1980 in a report commissioned by former Prime Minister Masayoshi Ohira recommending a comprehensive approach to national security based on long-term strategies for defense, energy and food problems. Brooks and Orr contend that conceptualization of this theory and the paramount importance attached to aid was no doubt accelerated by Vietnam's invasion of Cambodia in 1979, oil shortages related to the Iranian revolution, and Moscow's occupation of Afghanistan. Japanese policymakers appeared to reason that prudent expansion of ODA to strategically important countries -- particularly those that supply key raw materials -- would promote stability and discourage domestic discord.

The Ohira report proposed that defense policy combine military and non-military measures. Thus, in early 1981 it was announced that a second consecutive ODA-doubling plan would become the pillar of comprehensive security measures, reflecting Japan's willingness to play a greater role as a member of the western world. "Economic cooperation according to (Japan's) economic capacity" was advanced in conjunction with Tokyo's commitment to continue to expand and qualitatively improve its self-defense capabilities.

Progress Under the 1981-85 Plan

Since 1981, Japan has earmarked $9.95 billion for aid, which is not quite halfway to its target of $21.4 billion by 1985. As early as 1982, however, aid officials suspected that the goal might be difficult to attain. Although the original plan envisaged an average 8.7 percent annual growth in ODA, Tokyo disbursed $3.17 billion in 1981, about 4.1 percent below the $3.3 billion of 1980. The $3.02 billion spent in 1982 was no better, falling 4.7 percent below year-earlier figures. Last year's substantial 24.4 percent hike ended this two-year decline and brought Japan's foreign economic assistance to a record 0.33 percent of the country's gross national product. Although this percentage of GNP still lags behind the DAC average of 0.36 percent, the overall level of disbursements elevated Japan to the number-three spot among major aid donors.

The 9.7 percent increase in the fiscal 1984 budget for ODA and the Finance Ministry-proposed 11.4 percent increase for fiscal 1985 will make attainment of the doubling plan very difficult, although the Foreign Ministry has repeatedly emphasized that the government remains committed to the $21.4 billion target and will make its best efforts to realize this objective.

Tokyo's fiscal austerity policy poses a formidable obstacle to the aid-doubling effort. In order to reduce the huge budget deficit, line items have generally been held to zero growth; the rate of increase in the general account in the fiscal 1984 budget was 0.5 percent. ODA and defense spending, however, have been treated as exceptions, permitting a 9.7 percent hike in development assistance, the largest increase in the budget. In fiscal 1983, ODA also recorded the largest advance -- 8.9 percent. While noteworthy in light of the cutbacks in domestic budget outlays, this still leaves a not insignificant $11.5 billion gap for the government to close by next year if it is to attain the aid-doubling target. The very fact that aid has consistently been exempted from the budget ceilings, however, demonstrates that Tokyo is determined to play a development role more commensurate with its international economic prowess.

The traditionally tight-fisted Finance Ministry is not solely responsible for slowing the pace of the doubling plan, however. Aid authorities point out that unexpected changes in exchange rates have placed additional strains on an already difficult task. When the doubling commitment was made in 1981, the yen was trading at 220 to the dollar; during the next two years, it plummeted as low as 270 yen to the dollar. ODA disbursements in 1982 actually increased by 7.7 percent in yen terms, but showed a 4.7 percent decrease in dollar terms, as the yen depreciated approximately 13 percent that year.

The doubling plan has also been beset by continuing disagreements among major donors about funding levels for multilateral institutions, including the United Nations agencies and the World Bank. Since the 1960s, Japan has maintained a record of contributions to the multilateral agencies that was somewhat better than the DAC average. In 1977, multilateral assistance as a percentage of ODA was 36.9 percent, compared with a DAC average of 31.4 percent. Tokyo's multilateral contributions in 1982, however, constituted only 22 percent of total ODA, due at least in part to the U.S. decision to reduce or delay its contributions to the multilateral development banks. Since the major donors provide funds according to a formula that is pegged to the contributions of the United States, Washington's decision determines the amount of money available to developing countries.

Last year, Tokyo increased its multilateral ODA by 103.6 percent. This jump, Foreign Ministry officials explain, is attributable to the 1982 stalemate. While it is true that the Japanese government wanted to increase multilateral lending, its payments and contributions vary from year to year according to the outcome of the negotiations on capital increases. Thus, 1982's series of deadlocks over the International Development Association (IDA) and the World Bank replenishments held up Japan's contributions to these organizations, and last year's sharp increase simply compensated for the lag of the previous year.

Nature and Regional/Sectoral Focus of ODA

For the first three years of the latest doubling plan, Japan has maintained its 7-1-1-1 formula, with 30 to 35 percent of total ODA going to the five Association of Southeast Asian (ASEAN) nations. This trend can be expected to continue. Tokyo has also targeted more aid to countries of strategic importance in accordance with the concept of comprehensive security. According to American sources, Washington initially recommended that Japan increase its aid to the Middle East, focusing on the oil-producing countries, and to southern Africa, with its rich deposits of uranium, cobalt and nickel. The United States has also reportedly urged that more priority be given to countries that are important to East-West relations. Accordingly, Tokyo has expanded its contributions to Egypt, Turkey, Bangladesh and Pakistan, although U.S. sources acknowledge that some of these disbursements were not up to the levels proposed by the Reagan administration. Japan's regional emphasis should not be totally denigrated, however. In 1982 and 1983, China was the chief recipient of assistance, receiving $368.8 million and $350.15 million, respectively, and strategically important countries such as Egypt, Pakistan, India and Bangladesh were also among the top ten beneficiaries.

Development of public utilities is the main focus of Japan's aid efforts, accounting for between 46 and 47 percent of total ODA. Industry, mining and construction are next, with 11.9 percent of total ODA in 1983, and agriculture third at 10.35 percent. It is important to note, however, the significant increases recorded in the categories of social infrastructure and education (550.5 percent and 96.2 percent, respectively, in 1983). Greater emphasis on these two sectors reflects one aspect of Tokyo's strategy for helping resolve the international debt problem. The Japanese government believes that the fundamental solution to the debt crisis lies in the revitalization of the world economy. Moreover, considering the size of the accumulated debt and the fact that a large part of it is privately borrowed, Tokyo contends that extending ODA is no solution to developing countries' financial problems in the immediate future. Rather, the Foreign Ministry says, "ODA (should) work as a long-term solution to the international debt problem by improving economic and social welfare to increase the productivity of developing countries, and thus indirectly (contribute) to the revitalization of the world economy."

In the case of low-income countries that rely almost exclusively on ODA flows for development needs, Tokyo has placed more emphasis on providing grant aid and debt-relief assistance through multilateral organizations. Grants as a percentage of total ODA did indeed increase significantly between 1982 and 1983, rising from 39.8 percent to 55.2 percent. However, the grant element of Japan's ODA still hovers under 80 percent, so the terms of its loans are somewhat tighter than those of other donors. (In 1978, the OECD set a goal of 86 percent for the grant component; 100 percent would be an outright grant with no restrictions.)

Prospects for Japan's Foreign Aid Programs

The Ministry of Foreign Affairs has requested a 21 percent increase for the ODA budget in fiscal 1985 to enable Japan to meet its doubling commitment, although the Finance Ministry set the official budget ceiling at only 11.4 percent. In view of the fact that this ceiling still has to be approved by the cabinet and the Diet, there is some room for re-slicing the pie.

Aside from budget numbers, Tokyo's aid program has grown qualitatively as well. Grants as a percentage of total ODA have continued to improve, as has the quality of these grants. In recent years there have been efforts to fine-tune the overall foreign assistance effort through careful program evaluation to see how and whether these various projects are being implemented as originally envisaged.

Also indicative of Tokyo's commitment to development assistance is its continued interest in collaboration with the United States. According to U.S. observers, during times of heightened tensions over the bilateral trade imbalance and defense spending, both sides have welcomed this non-contentious subject. Aside from improving political ties in the developing world, Washington views collaboration with Japan as a means of extending its financial resources to increase the net benefit of its development assistance, rather than concentrating on a few limited projects. Tokyo seeks the positive political payoffs as well, but also looks to joint cooperation as a means of avoiding duplicative efforts and realizing more complementarity in aid programs with another major donor.

To date, the United States and Japan have collaborated on two projects: a dry-land agricultural center in northeastern Thailand and a smaller project in Tonga in the South Pacific. Under discussion is an agricultural university in Pakistan, which would involve complementary assistance. That is, Japan would construct the facilities (for example) and the United States would provide books and teachers. According to the State Department, in aid discussions last February, Washington asked Japan to examine a rural electrification project in Bangladesh supported by Finland and Kuwait as well as the United States. U.S. participants have also asked Tokyo to cooperate on an agricultural project in Indonesia where Japan's expertise in rice cultivation would be applicable, and in the Philippines on programs involving upland agriculture, energy and population. These proposals will undoubtedly appear on the agenda of the next working-level meeting.

The fact that joint cooperation in development assistance has proceeded at a comparatively measured pace does not necessarily reflect flagging interest. Rather, collaboration of this sort requires a special combination of factors. In addition to the difficulties of forging a consensus between the donors, the recipients themselves must also be amenable to the strategy being implemented. Experience has shown that to reach this agreement often takes considerable time and effort.

Despite the hurdle Japan faces in completing its 1981-85 doubling plan, Tokyo's foreign assistance effort is frequently referred to in OECD publications and other multilateral aid fora as a bright spot during a time when many donors are reneging on their commitments. The fact that Prime Minister Nakasone played such an active role at the London economic summit in June in consolidating views on the global debt crisis may well foreshadow the kind of forward-looking leadership Japan will demonstrate when it chairs the upcoming World Bank/International Monetary Fund meeting in Washington.

For further information, contact Barbara Wanner.

The views expressed in this report are those of the author and do not necessarily represent those of the Japan Economic Institute.

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Table 1

Total Net Flow of Financial Resources from Japan to Developing Countries and Multilateral Agencies, 1982-83

(in millions of dollars)

Type of Transaction	1982	1983	Percent Change 1982/83
I. Official Development Assistance (ODA)	$3,023.3	$3,761.0	24.4%
Change Over Previous Year	-4.7%	24.4%	
As Percentage of GNP	0.28%	0.33%	
A. Bilateral Assistance	2,367.3	2,425.2	2.4
1. Grants	805.2	993.4	23.4
Grant Assistance	412.3	535.1	29.8
Technical Assistance	392.9	458.3	16.6
2. Development Lending and Capital	1,562.1	1,431.8	-8.3
B. Grants, Capital Subscription and Loans to Multilateral Agencies	656.0	1,335.8	103.6
II. Other Official Flows	2,913.7	1,954.3	-32.9
A. Export Credits (over 1 year)	849.5	472.1	-44.4
B. Direct Investment Finances and Others	2,094.9	1,441.5	-31.2
C. Transactions with Multilateral Agencies at Market Terms	-30.7	40.7	
III. Private Flows	2,928.5	2,918.0	-0.4
A. Direct Investments	363.5	432.8	19.1
B. Export Credits (over 1 year)	-1,762.3	-2,068.6	
C. Other Bilateral Securities and Claims	2,798.8	2,338.9	-16.4
D. Multilateral Private Flows	1,528.5	2,214.9	44.9
IV. Grants by Voluntary Agencies	23.3	29.7	27.5
Total Official and Private Flows (I + II + III + IV)	8,888.8	8,663.0	-2.5
Change Over Previous Year	27.3%	-2.5%	
As Percentage of GNP	0.84%	0.75%	
For Reference			
Export Credits (total)	-912.9	-1,596.5	
Direct Investments and Others (total)	2,458.4	1,874.3	-23.8

Notes: 1. Net disbursement basis.
2. The figures do not necessarily add up to the totals, due to rounding.

Source: Ministry of Foreign Affairs, August 8, 1984

Table 2

Grant Element of Japan's Official Development Assistance, 1979-83

	1979	1980	1981	1982	1983
Average Grant Element of Bilateral Loans	54.6%	56.1%	56.4%	57.2%	54.3%
Grant Element of Total ODA	77.7	74.3	75.3	74.2	79.5
Grants as Percent of Total ODA	50.0	40.0	43.6	39.8	55.2

Notes: 1. Commitment basis.
2. Debt relief is included.

Source: Ministry of Foreign Affairs

Table 3

Japan's Official Development Assistance by Region, 1981-83

(in millions of dollars)

Year	Total	Asia	Middle East	Africa	Latin America	Europe	Oceania	Unallocable
1981	$2,260 (100.0%)	$1,605 (71.0%)	$190 (8.4%)	$210 (9.3%)	$176 (7.8%)	-$2 (-0.1%)	$19 (0.9%)	$62 (2.7%)
1982	$2,367 (100.0%)	$1,624 (68.6%)	$194 (8.2%)	$268 (11.3%)	$184 (7.8%)	-$3 (-0.1%)	$23 (1.0%)	$77 (3.2%)
1983	$2,425 (100.0%)	$1,614 (66.5%)	$201 (8.3%)	$261 (10.8%)	$241 (9.9%)	-$2 (-0.1%)	$18 (0.7%)	$93 (3.8%)

Notes: 1. Net disbursement basis.
2. Figures in parentheses indicate percentage share.

Source: Ministry of Foreign Affairs

Table 4

Sectoral Distribution of Japan's Official Development Assistance, 1982-83

(in millions of dollars)

	1982	1983	Percent Change 1982/83	Percent Distribution 1982	Percent Distribution 1983
Planning and Public Administration	$18.10	$11.62	-35.8%	0.50%	0.33%
Development of Public Utilities	1,679.92	1,652.91	-1.6	46.55	47.45
Agriculture	379.28	360.34	-5.0	10.51	10.35
Industry, Mining and Construction	481.05	414.57	-13.8	13.33	11.90
Trade, Banking, Tourism and Services	32.87	35.44	7.8	0.91	1.02
Education	110.13	216.04	96.2	3.05	6.20
Health	137.91	129.11	-6.4	3.82	3.71
Social Infrastructure and Welfare	19.93	129.64	550.5	0.55	3.72
Multi-Sector	15.78	85.89	444.3	0.44	2.47
Unspecified	78.85	51.37	-34.9	2.18	1.47
Contributions Not Allocable by Sector (commodity loans, food aid, debt relief, others)	655.16	396.24	-39.5	18.15	11.38
Total	3,608.98	3,483.17	-3.5	100.00	100.00

Note: Commitment basis.

Source: Ministry of Foreign Affairs

Table 5

Official Development Assistance of Major Donor Countries, 1983

(in millions of dollars)

Rank	Country	Amount	Percent of Total DAC ODA 1983	Percent of Total DAC ODA 1982
1	United States	$7,950	28.9%	29.7%
2	France	3,915	14.2	14.3
3	Japan	3,761	13.7	10.8
4	West Germany	3,181	11.6	11.3
5	United Kingdom	1,601	5.8	6.4
6	Netherlands	1,429	5.2	5.3
	Other Donors	5,697	20.6	22.2
DAC Total		27,534	100.0	100.0

Source: Ministry of Foreign Affairs

Table 6

Official Development Assistance of DAC Countries, 1982-83

(in millions of dollars)

		1983		1982		Percent
Rank*	Country	Amount	Percent of GNP	Amount	Percent of GNP	Change 1982/83
1	Norway	$584	1.06%	$559	0.99%	4.5%
2	Netherlands	1,195	0.91	1,472	1.08	-18.8
3	Sweden	779	0.88	987	1.02	-21.1
4	France**	3,915	0.76	4,034	0.75	-3.0
5	Denmark	394	0.72	415	0.76	-5.1
6	Belgium	477	0.59	499	0.59	-4.4
7	Australia	753	0.49	882	0.57	-14.6
8	West Germany	3,181	0.49	3,152	0.48	0.9
9	Canada	1,429	0.45	1,197	0.41	19.4
10	United Kingdom	1,601	0.35	1,800	0.37	-11.1
11	Finland	153	0.33	145	0.30	5.5
12	Japan	3,761	0.33	3,023	0.28	24.4
13	Switzerland	318	0.31	252	0.25	26.2
14	New Zealand	61	0.29	65	0.28	-6.2
15	United States	7,950	0.24	8,202	0.27	-3.1
16	Italy	826	0.24	811	0.24	1.8
17	Austria***	157	0.23	235	0.35	-33.2
DAC Total		27,534	0.36	27,730	0.38	-0.7

*Countries are ranked by ODA as percentage of donor GNP in 1983.

**Including overseas territories and prefectures.

***1982 figures include estimated volume of concessionary export dredits on a net disbursement basis.

Source: Ministry of Foreign Affairs

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REPORT

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U.S.-JAPAN COMPETITION IN MACHINE TOOLS: AN UPDATE

Summary

The boom-and-bust U.S. machine tool industry is struggling to pull out of its deepest slump ever. The recession that started to engulf the domestic economy in 1980 brought an abrupt end to an incredible surge. It also eroded the complacency that had developed during the boom years since the slump exposed the fact that foreign competitors, particularly Japanese builders, were entrenched in the American marketplace. Thrown into upheaval by the recession and increased imports, the industry is undergoing a shakeout that should produce a group of strong survivors able to compete successfully with Japanese machine tool makers.

An Exhilarating Ride Up

The U.S. machine tool industry has been on a roller coaster ride over the past ten years like no other in the history of this boom-and-bust business. Orders for metal-cutting and metal-forming machine tools collapsed during the 1974-75 recession, tumbling to under $1.2 billion from a 1973 peak of $2.6 billion. But this slump quickly became a distant memory, blotted out by an unprecedented volume of orders from capital goods manufacturers. Bookings bounced back 88 percent in 1976 and another 34 percent the next year to $3 billion. This new record was broken almost as soon as it was set, though, as orders shot up to $4.3 billion in 1978 and then to an almost unbelievable $5.6 billion in 1979.

Detroit's multibillion-dollar program to retool production lines for the manufacture of downsized vehicles ignited this order boom, but U.S. car and truck makers, while the best customers, were not alone in booking big orders for machine tools in the late 1970s. Orders poured in from commercial aircraft manufacturers for equipment that would help them turn out a new generation of fuel-efficient jet transports. The oilfield machinery industry also became a major market for American machine tool producers with the worldwide increase in oil and gas drilling activity. Other large orderers included construction and farm machinery manufacturers. They, like a long list of American equipment makers fighting to maintain international competitiveness, needed new tooling to increase productivity, control production costs and implement design changes. Coming full circle, machine tool builders numbered among their own best customers since the flood of orders from other capital goods suppliers triggered stepped-up investments in plant expansion and modernization.

While U.S. machine tool builders were profiting from the retooling of the American production base, the recession that was crippling one industry after another began to show up on the order books. Bookings dropped 15 percent in 1980, but since they still added up to an extraordinarily robust $4.8 billion, industry executives and analysts saw little reason to change their bullish projections for the machine tool business in the early 1980s. Discounting developments that had signaled the onset of a slump in the past -- high and rising interest rates, falling capacity utilization, weak corporate profits and pared-back capital spending plans, most industry participants predicted that any order softening would be slight and temporary. Even if these forecasts proved wrong, it was reasoned, the industry was in a good position to ride out a dry spell because of its huge backlog of unfilled orders.

The flood of orders from automotive makers and other key U.S. capital goods industries had left American machine tool builders on the losing end of a battle against mounting backlogs and stretched-out delivery times since around the middle of 1976. From $1.1 billion at that point, the backlog of unfilled orders ballooned to $2.2 billion in December 1977, $3.5 billion in December 1978 and then to $5.4 billion in December 1979 before topping out at $5.6 billion in May 1980. At the end of 1980, the industry was still sitting on a $5.5 billion backlog. Unfilled orders for transfer lines -- machinery designed for long production runs of a single part or family of parts -- made up a fourth of this total. Long lead times are normal for special-purpose machines that must be custom engineered and built, so the big backlog for transfer lines was not without precedent. What was surprising was that unfilled orders for machining centers, numerically controlled (NC) lathes and manually operated lathes -- all standard machines -- also represented a quarter of the aggregate backlog.

Just as industry executives and analysts had predicted, the huge backlog of unfilled orders insulated U.S. machine tool production at the start of the 1980s from the worst effects of the rapidly spreading recession. Shipments, which had shot up from $2.5 billion in 1977 to $4.1 billion in 1979, hit $4.8 billion in 1980. And the boom had still not spent itself; in 1981, machine tool builders turned out an awesome $5.1 billion worth of equipment.

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Production of transfer machines fueled this explosive growth, multiplying 2.8 times over the five-year period to $896 million, but machining centers nearly matched this feverish pace, with shipments climbing 175.7 percent to $483 million. Not far behind were NC lathes, up 126 percent to $441 million. Other machine tools in rapidly increasing demand by U.S. industry during the 1977-81 timespan included grinding machines, particularly cylindrical grinders, and milling machines, notably profilers.

A Bust Like No Other

The enormous order backlog postponed the U.S. machine tool industry's day of reckoning with the most devastating economic slump since the 1930s; it did not provide a permanent shield. From 1980's strong booking rate of $4.8 billion, orders sank below $3 billion the next year and then slowed to a $1.5 billion trickle in 1982. U.S. automotive makers, caught in a sales tailspin, sliced their orders in 1981 and again the following year. With domestic and foreign airlines putting purchases of new planes on hold, tooling demand from the aerospace industry also dried up during this period. So did bookings from manufacturers of construction and farm machinery as the bottom fell out of their markets at home and abroad. Any remaining hope that the machine tool industry could avoid a total bust evaporated in 1982 when one of the few remaining pillars of strength -- orders from the energy sector -- crumbled and an anticipated surge in defense-related spending failed to materialize.

Orders did perk up a little in 1983 with the first glimmerings of a turnaround in investment spending by American capital goods manufacturers, rising to $1.7 billion, but the upturn came too late and was too anemic to prevent the near collapse of U.S. machine tool production. Shipments, which had already tumbled to less than $3.8 billion from 1981's all-time high of $5.1 billion, sagged over the space of just twelve months to a scant $2.1 billion. Even this meager amount of business required the virtual depletion of the industry's backlog. The huge cushion that $5.6 billion worth of unfilled orders had provided machine tool manufacturers at the end of 1980 had shrunk by December 1983 to an uncomfortable $1 billion-plus.

In a double blow to hard-pressed American producers, arrivals of foreign-made machine tools did not drop off sharply as the order backlog was whittled down and lead times were reduced to acceptable levels. On the contrary, foreign builders continued to gain market share. At the start of the boom in 1976, imports accounted for a relatively modest 15.9 percent of the U.S. machine tool business, with sales concentrated in low-technology manually controlled machines like engine lathes. Over the next two years, though, purchases from abroad more than doubled to $705 million as foreign builders parlayed their shorter delivery times into a 22.1 percent share of the American market. Equally ominous, overseas suppliers began to make inroads into what were bread-and-butter product lines for many domestic makers -- small and medium-sized numerically controlled lathes and machining centers.

With average lead times for American-made machine tools stretching out from 11 months at year-end 1978 to 13 months in December 1979 and then to a year and a half at the end of 1980, foreign manufacturers continued to expand their U.S. market presence. They were particularly successful in winning contracts for standard NC machine tools from the thousands of job shops that act as parts subcontractors for automotive, aerospace and nonelectric machinery companies. Small buyers like these businesses tended to be slighted by domestic builders in favor of customers that ordered the big-ticket, sophisticated products in which American suppliers excel. But this neglect played right into the hands of the competition. Imports doubled betweeen 1978 and 1981 to $1.4 billion, landing foreign machine tools 25.6 percent of the overall market, including 42.2 percent of NC lathe sales and 31.3 percent of machining center shipments.

Job shops and other small users were not the only customers lost to the American machine tool industry, builders quickly discovered when they tried to drum up business in the recession's wake. Buyers representing a cross section of key capital goods manufacturers were also placing orders with foreign suppliers, sold by the combination of technological sophistication and competitive pricing they offered, not just on standard NC machine tools but also on products that were once the virtual domain of U.S. makers. Together, these customers helped to expand the market penetration of imports to 27.9 percent in 1982 and a deep 34 percent last year, when deliveries totaled $0.9 billion -- just 36.7 percent below peak shipments.

Entrenched Japanese Rivals

Far more than any other group of foreign machine tool producers, Japanese builders were in a position in the late 1970s to capitalize on the sales opportunities created by the U.S. industry's mounting backlog of unfilled orders. Machine tool manufacturers in Japan had earmarked significant portions of their research and development budgets in preceding years for work on compact, standardized numerically controlled machines tailored to the requirements of small and medium-sized customers. This emphasis was not accidental. Orders from Japanese parts subcontractors had kept many builders afloat during periods of weak demand from their primary customers -- Japan's big automotive and nonelectric machinery companies.

In another competitive plus for the Japanese machine tool industry, makers had invested relatively large amounts of money during the 1970s to automate their production processes. As a result, NC lathes and machining centers were being produced on assembly lines in Japan while U.S. builders were still turning out these tools one at a time. Moreover, Japanese firms manufactured standard NC machines for stock, which not only shortened delivery times but also maximized the cost advantages of assembly line production. Lower costs automatically gave Japanese vendors a pricing edge on their American counterparts, but this margin widened during the recession years of the mid-1970s as competition at home for sales of NC lathes and machining centers drove Japanese prices even lower.

With Japanese builders beating American producers of standard NC equipment on delivery time, design and price and at least matching them on after-sales service, machine tools made in Japan won quick acceptance in the U.S. marketplace, to put it mildly. Imports more than tripled between 1976 and 1978 to $213 million and then repeated this feat over the period through 1981, hitting $693 million. Numerically controlled lathes and machining centers made up nearly two-thirds of this sales tally, which netted Japanese suppliers a

12.3 percent stake in the U.S. machine tool business. Incredibly, producers in Japan shipped more NC lathes to American job shops and other domestic buyers in 1981 than U.S. companies did (3,209 versus 2,021) and almost tied them on shipments of machining centers (1,944 versus 2,081), even though American builders had their factories operating at capacity that year.

The days of easy U.S. sales for Japanese machine tool manufacturers were numbered, it turned out, but industry executives were slow to recognize this fact, proving no more adept than their American counterparts at anticipating how fast and hard the recession would hit business. Even as demand was taking a nosedive in the first part of 1982, deliveries from Japan continued to expand. Shipments slowed later in the year, but the cutback occurred too late to prevent an inventory buildup here of Japanese-made machine tools. How big these inventories were was the subject of much speculation in the U.S. industry, but even distributors of Japanese products acknowledged that they were sitting on costly excess stocks.

To move these inventories in the increasingly depressed U.S. market, Japanese machine tool makers offered potential customers attractive financing packages, including below-market interest rates and deferred payments, as well as liberal tryout terms. They also resorted to price discounting to win what little business there was. American builders initially resisted discounting, opting instead to attract buyers with other types of incentives while holding the line on price increases. As market conditions continued to deteriorate into 1983 and the pricing of Japanese-made machine tools became more aggressive, however, U.S. manufacturers joined the discounting fray. This proved to be a no-win situation, at least in the area of standard NC equipment, since their Japanese competitors had larger profit margins with which to work. Part of this pricing flexibility reflected the windfall obtained from the yen's depreciation in the 1982-83 period. More importantly, Japanese machine tool exporters had hiked list prices during the boom years to cash in on surging U.S. demand.

A Hard Landing for Builders

The recession and Japanese competition took a heavy toll last year on U.S. machine tool builders, both large and small. Just two years after it earned a record $96.9 million on all-time-high machine tool sales of $639.5 million, Cincinnati Milacron Inc., the industry's undisputed leader, lost $4.7 million in 1983 on sales of $283.8 million. Cross and Trecker Corp., the second or third largest producer in most years, fared no better, going from peak earnings of $72.1 million on company-wide revenues of $408.9 million in the year through September 1981 to a loss of $2.4 million on sales of $149.9 million in the October 1982-September 1983 period. The list of big American machine tool manufacturers awash in red ink goes on -- Allied Corp., Textron Inc., Ex-Cell-O Corp., White Consolidated Industries Inc., Acme-Cleveland Corp., Ingersoll Milling Machine Co. Few, if any, of the industry's largest members made money on machine tools in the 1983 accounting year.

A significant number of the small, privately owned companies that typify the U.S. machine tool industry closed their doors during the 1982-83 bust, unable to afford the luxury of riding out their losses. Others sold out to larger competitors. Takeovers, both by domestic and foreign companies, thinned the ranks of independent second-tier manufacturers as well. At least one top player also decided to pull out of the business. In April of this year, Allied sold the machine tool and other automation group operations of its recently acquired Bendix Corp. unit to Cross and Trecker for the bargain price of $65 million plus stock warrants.

Hard-hit U.S. machine tool makers would have gladly traded places with their Japanese competitors, but Japanese builders were no more able to escape the effects of weak demand at home and abroad than American manufacturers. Orders from domestic customers fell in 1982 and then leveled off in reaction to back-to-back declines in bookings from the pivotal automotive and nonelectric machinery industries. With exports, which absorbed up to two-fifths or so of output during the boom, taking up virtually none of this order slack, Japanese machine tool production tumbled from its 1981 peak of Y1,057 billion ($4.8 billion), contracting by 10.5 percent in 1982 and by a slightly larger margin last year to Y842 billion ($3.5 billion).

Magnified by one of the price wars that periodically sweep the Japanese machine tool industry, this production slide was reflected in the reduced sales and slim profits or even losses reported in FY 1982 and FY 1983 by builders in Japan. Okuma Machinery Works, Ltd., for example, saw its machine tool revenues drop from a record Y52 billion ($229 million) in the April 1981-March 1982 period to about Y39 billion ($166 million) in the business year ending March 1984. Similarly, Toyoda Machine Works, Ltd., which vies with Okuma as Japan's biggest producer of metal-cutting machine tools, sold only about Y43 billion ($182 million) worth of equipment in FY 1983, off from its FY 1981 peak of Y49 billion ($213 million). Other top manufacturers -- including Toshiba Machine Co., Ltd., Mori Seiki Co., Ltd., Makino Milling Machine Co., Ltd., Hitachi Seiki Co., Ltd. and Osaka Kiko Co., Ltd. in the metal-cutting sector and Amada Co., Ltd., Aida Engineering, Ltd. and Komatsu, Ltd. among the makers of metal-forming machine tools -- had similar results.

The Japanese machine tool industry also had its share of dropouts, mergers and tie-ups. This past spring, Ikegai Corp., a medium-ranked maker that lost money in both FY 1982 and FY 1983, linked up with Tsugami Corp., another second-tier producer, to market and possibly manufacture products. About the same time, Okuma, Amada and struggling Wasino Machine Co., Ltd. announced that they were going to jointly develop, manufacture and market NC lathes and grinders. Moreover, on October 1, 1984, Toyama Machine Works, Ltd. will take over Nippei Industrial Co., Ltd., like it, a medium-sized builder.

A Fight for Survival

If there is a silver lining to the upheaval in the U.S. machine tool industry, it is that stiff Japanese competition on top of the recession has forced American companies that want to remain in the business to confront problems that they might have otherwise skirted. Consequently, builders like Cincinnati Milacron and Cross and Trecker are much stronger competitors today than they were at the height of the boom. Even in the face of an earnings slide, the leading vendors resisted making any deeper cuts in their capital spending and R&D budgets than were absolutely necessary. Over the 1981-83 period, for example, Cincinnati Milacron's machine tool group invested

$77 million in plant and equipment, while Cross and Trecker spent $46 million plus another $13 million on R&D.

A substantial portion of these monies was put into new product development, particularly in the area of flexible automation (loosely described as machine tools joined in cells or systems). Builders also introduced flexible automation and technically sophisticated stand-alone machine tools into their own operations to improve manufacturing efficiencies. Production capacity was expanded as well as modernized to minimize the impact of delivery times in a customer's buying decision.

While trying to maintain capital spending and R&D funding at pre-recession levels, U.S. machine tool builders were on a cost-cutting drive. The upgrading of the manufacturing base played a key role in this campaign; so did the consolidation of production in newer facilities. Labor costs were trimmed, in large part by reducing the work force, and marketing and distribution systems were revamped. Through steps such as these, bigger companies in particular were able to lower the volume of sales needed to make a profit. Cross and Trecker, for one, reduced its breakeven point to approximately $150 million from $200 million.

A number of large domestic manufacturers also decided to go head-to-head with their Japanese competitors in standardized numerically controlled equipment. Over the space of roughly twelve months in the early 1980s, Cincinnati Milacron, Kearney & Trecker (a Cross and Trecker subsidiary), the Pratt & Whitney Machine Tool division of Colt Industries Inc. and Bendix's Warner & Swasey Co. unit all introduced small NC lathes and/or machining centers featuring a limited number of options. These new models were built on assembly lines and priced comparably with Japanese products. The competitiveness of these machines never received a fair test, however, since they went into distribution just when the recession started to cut into orders.

Some leading U.S. producers took the opposite tack, conceding part or all of the market for commodity machine tools to foreign builders and concentrating their financial resources and manpower on the high technology product lines in which American producers have an edge. At the same time, though, most of these companies signed supply agreements with overseas makers so that they could maintain at least a minimal presence in standard equipment lines. Acme-Cleveland, for example, is sourcing a complete line of machining centers from Mitsubishi Heavy Industries, Ltd., while Bendix, before its sale to Cross and Trecker, was marketing Toyoda's full line of machining centers.

Even builders that introduced products designed to compete head on with Japanese suppliers are rounding out their lines with equipment imported from Japan. As one example, Colt Industries' Pratt & Whitney Machine Tool division is selling machining centers and NC lathes manufactured by Fanuc, Ltd. This fall, moreover, Kearney & Trecker will start distributing an Ikegai machining center as the low end of its line.

A few companies have taken the middle route, producing commodity NC lathes or machining centers under license from a Japanese manufacturer. Perhaps the best-publicized example of this type of arrangement is LeBlond Makino Machine Tool Co., which makes Makino-licensed machining centers in addition to its traditional line of NC lathes. But there is a twist here: Makino has owned a 51 percent interest in the second-tier builder since 1981.

Investments in modernization and development of new product and process technologies, supplemented by supply or licensing agreements, are unquestionably the keys to a broadly competitive U.S. machine tool industry. The drawback to this prescription is that the small, privately owned companies that form the industry's backbone have neither the cash flow nor the access to outside sources of funds to underwrite these survival steps. Even big machine tool builders have been strapped for adequate plant and equipment and R&D resources. Being part of a conglomerate, as many large and medium-sized producers are, does not eliminate the funding problem if the parent views the machine tool unit as a drain on earnings rather than a long-run profit center.

Given the industry's financial problems and the perceived linkage between these troubles and increasing import competition, it is not surprising that machine tool builders have turned to Washington for help. What is significant is that these manufacturers have eschewed the traditional import-relief routes taken by other protection-minded U.S. industries. Instead, they have pursued novel or at least unusual approaches to stop imports in their tracks.

Houdaille Industries Inc., a medium-sized machine tool producer, fired the first shot in May 1982 when it asked President Reagan to deny investment tax credits to American companies that buy Japanese-made machining centers and NC punching machines. Houdaille's unique complaint was based on Section 103 of the 1971 Revenue Act, which empowers the president to disqualify foreign equipment from eligibility for investment tax credits if he finds that the equipment is the product of a government-backed cartel.

The charge that Japanese-made machine tools benefited from a government-supported cartel struck a responsive chord among those U.S. government and congressional representatives anxious to document how Japan's industrial policies hurt competitors in other countries. At the same time, though, many administration officials as well as industry executives questioned the accuracy of Houdaille's allegations, not to mention the present-day relevance of activities that purportedly occurred 20 years ago. There was also concern that a favorable ruling could open the flood gates to complaints from manufacturers in other industries threatened by foreign competition, plus invite retaliation from abroad. With his policy advisers split over the Houdaille petition, President Reagan finally had to step in and make the decision in April 1983 to take no action on this unique bid for protection.

The machine tool industry's current drive for import relief has also divided the Reagan administration. In March 1983, the National Machine Tool Builders' Association (NMTBA) appealed to the White House for across-the-board protection from foreign suppliers on national securities grounds. Tapping little-used Section 232 of the 1962 Trade Expansion Act, the trade association argued that the rising tide of imports threatens to cripple an industry critical to this country's "defense and deterrance posture." To maintain sufficient production capacity for national emergencies, the NMTBA asked the government to roll back aggregate machine tool imports to 17.5 percent of the

U.S. market for the next five years. It also requested that import penetration in any one of 18 product lines be capped at 20 percent of domestic sales.

This plea for a "breathing spell" has won the backing of Commerce Secretary Malcom Baldrige, but the Department of Defense is said to be cool to the idea, in part apparently because defense contractors have come out strongly against the proposal. The reaction of other department and agency heads involved in trade issues reportedly ranges from lukewarm support to outright opposition.

Opponents are understandably worried that curbs on machine tool imports for national security reasons could trigger foreign retaliation against U.S. exports, perhaps on similar grounds, as well as spur a spate of pleas from other industries seeking import protection on this basis. There is also recognition that stiff import restrictions are a short-sighted solution to the machine tool industry's problem, as even some builders concede. With President Reagan under no statutory deadlines to decide whether or not to give machine tool makers the sweeping protection they want, and other trade issues requiring resolution, divisions among policymakers could indefinitely delay a White House response.

Looking to the Future

While many other capital goods industries surge ahead in the currently booming U.S. economy, the machine tool business remains in the doldrums. The weak recovery in orders that began in 1983 has gathered some steam this year, but import penetration is up several more notches and pricing continues to be tight. Machine tool executives and analysts therefore doubt that the domestic industry will spring back to its 1979-81 peak levels during this economic cycle. Some even question whether American builders will ever top their earlier records.

U.S. manufacturers, however, are not ready to concede the American marketplace to their foreign rivals. The companies that survive the industry's current problems will be world-class competitors, it is argued. They will be particularly strong in the fast-emerging field of flexible automation. Here, builders like Cincinnati Milacron and Cross and Trecker say, American companies have a decided edge over Japanese suppliers since they have a track record of developing systems software for outside customers and providing them with applications engineering support. Japanese machine tool builders, despite their extensive in-house use of flexible automation, lack the critical experience of developing and installing systems for other manufacturers.

For further information, contact Susan MacKnight.

The views expressed in this report are those of the author and do not necessarily represent those of the Japan Economic Institute.

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Table 1: Estimated U.S. Machine Tool Orders, Shipments and Backlog, 1972-83

(in millions of dollars)

	Net New Orders	Shipments*	Year-End Backlog
1972	$1,412	$1,019	$ 963
1973	2,613	1,501	2,074
1974	2,502	2,031	2,546
1975	1,186	2,452	1,281
1976	2,230	2,060	1,452
1977	2,997	2,281	2,168
1978	4,344	3,013	3,498
1979	5,621	3,877	5,388
1980	4,754	4,692	5,451
1981	2,945	5,096	3,300
1982	1,498	3,604	1,194
1983	1,696	1,845	1,045

*These figures differ from the Department of Commerce shipment data cited below in part because they exclude machines valued under $2,500.

Source: National Machine Tool Builders' Association, Industry Estimate of Machine Tool New Orders, Cancellations, Shipments and Backlog.

Table 2: U.S. Apparent Consumption of Machine Tools, 1979-83

(in thousands of dollars)

	1979	1980	1981	1982	1983
Shipments	$4,064,045	$4,812,349	$5,111,253	$3,748,911	$2,114,078(p)
Exports	619,115	719,670	934,322	583,022	348,705
Imports	1,043,769	1,258,438	1,439,108	1,223,225	910,499
Trade Balance	-424,654	-538,768	-504,786	-640,203	-561,794
Apparent Consumption	4,488,699	5,351,117	5,616,039	4,389,114	2,675,872
Total Exports as Percent of Apparent Consumption	13.8%	13.4%	16.6%	13.3%	13.0%
Total Imports as Percent of Apparent Consumption	23.3%	23.5%	25.6%	27.9%	34.0%
Exports to Japan as Percent of Apparent Consumption	1.1%	1.0%	0.9%	1.1%	1.3%
Imports from Japan as Percent of Apparent Consumption	7.9%	9.2%	12.3%	12.1%	15.2%

Source: Derived from following tables.

Table 3: U.S. Shipments of Machine Tools, 1979-83

(in thousands of dollars)

	1979	1980	1981	1982	1983(p)
Metal-Cutting Machine Tools					
Lathes	$650,343	$826,960	$816,780	$525,662	$336,468
Numerically Controlled	347,717	481,162	441,371	333,379	224,554
Machining Centers	356,491	413,047	482,661	338,757	170,648
Grinding Machines	474,943	555,781	615,356	459,842	283,568
Numerically Controlled	28,646	32,907	46,710	42,404	42,716
Milling Machines	279,831	339,283	436,557	302,553	185,926
Numerically Controlled	93,828	162,685	190,620	205,766	108,914
Boring Machines	177,356	191,952	230,980	193,758	93,548
Numerically Controlled	69,634	92,455	120,208	110,717	37,100
Drilling Machines	150,470	166,857	139,971	102,703	53,009
Numerically Controlled	17,701	33,380	52,768	34,884	13,660*
Gear Cutting and Finishing Machines	607,550	813,565	896,141	674,804	235,002
Other Machines	229,070	278,636	295,362	237,635	174,078
Numerically Controlled	18,085	45,384	36,485	27,244	27,909
Total	3,037,205	3,716,370	4,046,940	2,922,245	1,568,014
Numerically Controlled	932,102	1,261,020	1,370,823	1,093,151	625,501
Metal-Forming Machine Tools					
Mechanical Presses	348,546	353,153	343,815	236,809	149,356
Hydraulic Presses	85,455	87,624	85,785	101,873	
Shearing and Punching Machines	181,212	204,185	206,108	137,916	116,098
Bending and Forming Machines	183,429	214,924	212,830	157,848	132,217
Forging Machines	84,722	73,818	79,003	78,844	46,156
Other Machines	143,476	162,275	136,772	113,376	102,237
Total	1,026,840	1,095,979	1,064,313	826,666	546,064
Total Machine Tool Shipments	4,064,045	4,812,349	5,111,253	3,748,911	2,114,078

*Three quarters only.

Source: U.S. Department of Commerce, Bureau of the Census, Current Industrial Reports: Metalworking Machinery (MQ-35W)

Table 4: Total U.S. Exports of Machine Tools, 1979-83

(in thousands of dollars, f.a.s. value)

	1979	1980	1981	1982	1983
Metal-Cutting Machine Tools					
Lathes	$53,007	$67,083	$90,044	$70,401	$34,939
Numerically Controlled	n.a.	22,985	24,125	33,535	14,988
Machining Centers	45,385	56,743	53,427	34,012	13,350
Grinding Machines	65,935	85,085	126,572	71,161	49,013
Numerically Controlled	n.a.	11,612	19,468	11,581	12,317
Milling Machines	23,489	19,178	37,800	41,350	13,895
Numerically Controlled	n.a.	3,900	22,540	30,722	5,036
Boring Machines	32,393	33,184	79,443	32,386	18,527
Numerically Controlled	n.a.	16,831	21,391	11,055	7,389
Drilling Machines	16,760	22,223	24,391	12,376	8,327
Numerically Controlled	n.a.	1,874	4,246	790	1,227
Gear Cutting and Finishing Machines	43,845	61,212	80,141	37,387	31,586
Station and Transfer Machines	43,274	51,686	97,248	36,389	21,128
Other Machines*	68,382	66,361	79,501	59,168	39,849
Numerically Controlled	n.a.	2,267	3,985	2,603	1,093
Total	392,470	462,755	668,567	394,630	230,614
Numerically Controlled	n.a.	116,212	149,182	124,298	55,400
Metal-Forming Machine Tools					
Mechanical Presses	19,191	27,691	22,925	23,917	10,357
Hydraulic Presses	32,624	42,002	56,451	29,924	19,610
Shearing and Punching Machines	22,342	44,794	44,945	32,929	18,061
Numerically Controlled	n.a.	13,187	13,758	8,302	2,616
Bending and Forming Machines	45,672	44,492	46,007	35,111	19,656
Numerically Controlled	n.a.	12,403	14,528	12,679	7,137
Forging Machines	20,240	16,434	21,326	15,299	7,932
Other Machines*	86,576	81,502	74,101	51,212	42,475
Total	226,645	256,915	265,755	188,392	118,091
Numerically Controlled	n.a.	25,590	28,286	20,981	9,753
Total Machine Tool Exports	619,115	719,670	934,322	583,022	348,705
Numerically Controlled	n.a.	141,802	177,468	145,279	65,153

*Includes machines valued under $2,500.

Source: U.S. Department of Commerce, Bureau of the Census, U.S. Exports (FT 410)

Table 5: U.S. Exports of Machine Tools to Japan, 1979-83

(in thousands of dollars, f.a.s. value)

	1979	1980	1981	1982	1983
Metal-Cutting Machine Tools					
Lathes	$1,222	$1,456	$1,914	$3,576	$1,416
Numerically Controlled	n.a.	419	727	2,379	1,340
Machining Centers	1,469	1,472	89	1,555	297
Grinding Machines	5,684	7,731	15,892	12,680	5,805
Numerically Controlled	n.a.	2,619	5,764	4,671	1,439
Milling Machines	3,689	2,512	1,019	66	0
Numerically Controlled	n.a.	1,799	0	66	0
Boring Machines	4,154	2,289	1,707	2,349	368
Numerically Controlled	n.a.	485	553	193	0
Drilling Machines	1,387	1,629	1,879	95	0
Numerically Controlled	n.a.	0	81	0	0
Gear Cutting and Finishing Machines	6,952	15,104	12,770	9,606	626
Station and Transfer Machines	4,596	3,218	1,046	1,258	19,210
Other Machines*	1,654	2,064	3,610	4,599	1,023
Numerically Controlled	n.a.	0	0	0	275
Total	30,807	37,475	39,926	35,784	28,745
Numerically Controlled	n.a.	6,794	7,214	8,864	3,351
Metal-Forming Machine Tools					
Mechanical Presses	1,037	3,163	1,446	2,659	1,350
Hydraulic Presses	1,005	2,557	1,027	1,084	263
Shearing and Punching Machines	1,560	1,756	2,058	1,092	281
Numerically Controlled	n.a.	124	1,227	149	124
Bending and Forming Machines	5,709	5,518	2,474	972	712
Numerically Controlled	n.a.	1,096	1,429	323	64
Forging Machines	4,706	655	2,156	5,829	743
Other Machines*	2,950	4,089	1,648	2,632	1,808
Total	16,967	17,738	10,809	14,268	5,157
Numerically Controlled	n.a.	1,220	2,656	472	188
Total Exports to Japan	47,774	55,213	50,735	50,052	33,902
Numerically Controlled	n.a.	8,014	9,870	9,336	3,539

*Includes machines valued under $2,500.

Source: U.S. Department of Commerce, Bureau of the Census, U.S. Exports (FT 410)

Table 6: Total U.S. Imports of Machine Tools, 1979-83*

(in thousands of dollars, Customs value)

	1979	1980	1981	1982	1983
Metal-Cutting Machine Tools					
Lathes	$353,557	$380,011	$479,787	$338,615	$165,697
Numerically Controlled	n.a.	185,845	304,363	218,973	113,484
Machining Centers	39,672	93,387	195,718	188,869	164,938
Grinding Machines	80,479	138,604	137,184	117,577	89,644
Numerically Controlled	n.a.	9,608	16,628	18,093	14,488
Milling Machines	82,881	138,147	124,742	87,695	52,482
Numerically Controlled	n.a.	23,398	27,408	15,541	13,562
Boring Machines	70,885	81,813	98,564	89,467	44,639
Numerically Controlled	n.a.	23,670	30,833	37,459	19,765
Drilling Machines	25,008	27,201	26,448	20,718	9,916
Numerically Controlled	n.a.	846	2,016	1,538	2,258
Gear Cutting and Finishing Machines	33,058	41,297	36,982	25,826	13,849
Station and Transfer Machines	n.a.	7,510	8,479	7,426	1,640
Other Machines**	147,536	126,587	149,486	160,102	154,194
Numerically Controlled	n.a.	15,151	7,555	14,270	5,271
Total	833,076	1,034,557	1,257,390	1,036,295	696,999
Numerically Controlled	n.a.	351,905	584,521	494,743	333,766
Metal-Forming Machine Tools					
Mechanical Presses	21,013	13,627	16,165	19,977	25,248
Hydraulic Presses	28,069	54,822	28,172	20,378	26,957
Shearing and Punching Machines	40,955	43,075	51,003	41,574	35,469
Numerically Controlled	n.a.	16,454	29,837	25,550	19,047
Bending and Forming Machines	30,294	33,591	30,091	31,750	34,887
Numerically Controlled	n.a.	3,648	2,649	3,493	7,432
Forging Machines	20,794	22,851	15,755	21,548	39,753
Other Machines**	69,568	55,915	40,532	51,703	51,186
Numerically Controlled	n.a.	3,057	1,930	13,228	920
Total	210,693	223,881	181,718	186,930	213,500
Numerically Controlled	n.a.	23,159	34,416	42,271	27,399
Total Machine Tool Imports	1,043,769	1,258,438	1,439,108	1,223,225	910,499
Numerically Controlled	n.a.	375,064	618,937	537,014	361,165

*Imports for consumption.
**Includes machines valued under $2,500.

Source: U.S. Department of Commerce, Bureau of the Census, U.S. Imports for Consumption and General Imports (FT 246)

Table 7: U.S. Imports of Machine Tools from Japan, 1979-83*

(in thousands of dollars, Customs value)

	1979	1980	1981	1982	1983
Metal-Cutting Machine Tools					
Lathes	$169,124	$205,422	$303,466	$203,088	$105,057
Numerically Controlled	n.a.	148,865	258,546	179,444	95,459
Machining Centers	33,929	85,172	183,854	168,137	151,378
Grinding Machines	17,433	32,249	31,051	27,804	12,877
Numerically Controlled	n.a.	4,186	6,648	6,426	3,466
Milling Machines	22,767	38,756	36,011	19,650	12,574
Numerically Controlled	n.a.	9,312	16,303	8,083	6,351
Boring Machines	26,307	24,422	35,440	21,305	13,743
Numerically Controlled	n.a.	10,406	17,197	12,645	6,803
Drilling Machines	8,001	9,661	8,544	3,952	2,816
Numerically Controlled	n.a.	0	494	118	1,558
Gear Cutting and Finishing Machines	5,882	3,674	1,561	1,418	464
Station and Transfer Machines	n.a.	3,785	185	0	0
Other Machines**	22,366	30,920	34,139	28,271	39,198
Numerically Controlled	n.a.	8,323	372	3,266	1,965
Total	305,809	434,061	634,251	473,625	338,107
Numerically Controlled	n.a.	266,264	483,414	378,119	266,980
Metal-Forming Machine Tools					
Mechanical Presses	4,875	3,635	9,772	15,174	20,032
Hydraulic Presses	2,704	17,096	10,810	7,625	9,658
Shearing and Punching Machines	18,769	20,468	23,351	21,608	19,148
Numerically Controlled	n.a.	10,615	16,305	14,883	12,615
Bending and Forming Machines	2,845	3,690	5,361	4,291	6,790
Numerically Controlled	n.a.	0	380	576	984
Forging Machines	5,267	5,337	4,423	3,446	7,573
Other Machines**	12,984	7,145	5,075	7,117	5,333
Numerically Controlled	n.a.	416	1,013	202	171
Total	47,444	57,371	58,792	59,261	68,534
Numerically Controlled	n.a.	11,031	17,698	15,661	13,770
Total Imports from Japan	353,253	491,432	693,043	532,886	406,641
Numerically Controlled	n.a.	277,295	501,112	393,780	280,750

*Imports for consumption.
**Includes machines valued under $2,500.

Source: U.S. Department of Commerce, Bureau of the Census, U.S. Imports for Consumption and General Imports (FT 246)

Table 8: Japan's Apparent Consumption of Machine Tools, 1979-83

(in thousands of dollars)

	1979	1980	1981	1982	1983
Production	$2,964,014	$3,826,068	$4,792,682	$3,797,968	$3,544,914
Exports	1,239,144	1,446,718	1,689,899	1,267,020	1,254,012
Imports	165,871	219,976	216,425	220,788	170,949
Trade Balance	1,073,273	1,226,742	1,473,474	1,046,232	1,083,063
Apparent Consumption	1,890,741	2,599,326	3,319,208	2,751,736	2,461,851
Total Exports as Percent of Apparent Consumption	65.5%	55.7%	50.9%	46.0%	50.9%
Total Imports as Percent of Apparent Consumption	8.8%	8.5%	6.5%	8.0%	6.9%
Exports to United States as Percent of Apparent Consumption	19.5%	19.9%	22.8%	18.9%	16.9%
Imports from United States as Percent of Apparent Consumption	2.5%	2.5%	1.5%	2.3%	2.0%

Source: Derived from following tables.

Table 9: Japan's Production of Machine Tools, 1979-83

(in thousands of dollars*)

	1979	1980	1981	1982	1983
Metal-Cutting Machine Tools					
Lathes	$713,753	$972,185	$1,040,446	$768,898	$668,108
Numerically Controlled	459,139	672,295	731,328	562,963	511,494
Machining Centers	284,463	491,383	749,787	649,853	701,368
Grinding Machines	235,776	331,705	439,666	357,081	293,634
Numerically Controlled	7,574	15,078	19,652	23,867	24,646
Milling Machines	233,170	260,485	338,542	302,530	274,819
Numerically Controlled	62,459	83,215	139,172	135,969	141,887
Boring Machines	120,566	135,607	159,023	123,574	108,429
Numerically Controlled	17,699	35,652	57,468	45,304	42,236
Drilling Machines	55,221	59,453	74,104	60,851	56,778
Numerically Controlled	6,197	8,710	9,722	7,380	17,817
Gear Cutting and Finishing Machines	49,398	67,290	89,449	48,472	40,392
Planing Machines	11,105	9,191	12,805	10,556	9,637
Electric Discharge Machines	143,299	195,929	228,770	234,102	281,618
Numerically Controlled	82,185	144,525	180,838	197,671	256,585
Special Purpose Machines	275,381	331,065	542,555	460,410	385,210
Numerically Controlled	18,549	28,370	53,147	39,795	62,799
Other Machines	138,690	153,874	184,978	126,722	136,755
Numerically Controlled	21,178	17,671	27,084	30,749	37,294
Total	2,260,820	3,008,168	3,860,125	3,143,048	2,956,749
Numerically Controlled	959,442	1,496,900	1,968,196	1,693,551	1,796,127
Metal-Forming Machine Tools					
Mechanical Presses	408,583	466,712	576,063	377,956	305,848
Hydraulic Presses	144,205	156,410	164,714	131,170	139,020
Shearing Machines	72,093	94,690	102,961	60,618	63,313
Bending Machines	17,012	24,953	24,327	29,697	24,310
Forging Machines	21,733	28,137	31,078	21,819	19,863
Wire Forming Machines	39,568	46,999	33,413	33,660	35,808
Total	703,194	817,901	932,556	654,921	588,165
Total Machine Tool Production	2,964,014	3,826,068	4,792,682	3,797,968	3,544,914

*The following average annual exchange rates were used to convert the yen production figures: 1979, Y214.14; 1980, Y226.75; 1981, Y220.54; 1982, Y249.05; and 1983, Y237.52.

Source: Japan, Ministry of International Trade and Industry, Yearbook of Machinery Statistics

Table 10: Japan's Total Exports of Machine Tools, 1979-83

(in thousands of dollars*, f.o.b. value)

	1979	1980	1981	1982	1983
Metal-Cutting Machine Tools					
Lathes	$379,752	$520,007	$577,432	$367,382	$301,477
Numerically Controlled	279,337	442,900	509,166	313,956	251,284
Machining Centers	139,255	269,913	432,530	294,331	331,093
Grinding Machines	131,140	115,568	112,208	99,546	82,713
Numerically Controlled	2,349	1,816	4,089	8,291	10,836
Milling Machines	62,909	74,764	77,382	61,111	61,922
Numerically Controlled	10,939	26,562	40,358	26,465	34,140
Boring Machines	80,103	53,975	59,547	42,325	41,064
Numerically Controlled	22,975	13,336	6,369	9,105	11,871
Drilling Machines	38,650	28,458	27,462	36,992	44,995
Numerically Controlled	3,078	4,274	3,257	5,453	15,195
Gear Cutting and Finishing Machines	24,434	13,886	10,979	7,751	9,976
Planing Machines	4,143	4,766	3,544	1,470	1,830
Electric Discharge Machines	28,824	46,616	41,380	34,813	61,236
Other Machines	61,006	56,118	70,737	51,243	63,376
Total	950,216	1,184,070	1,413,201	996,964	999,684
Numerically Controlled	457,933	758,800	995,770	657,602	654,420
Metal-Forming Machine Tools					
Mechanical Presses	96,438	67,990	58,490	80,030	45,261
Hydraulic Presses	34,232	30,222	26,868	35,072	43,680
Shearing and Punching Machines	47,331	55,826	75,926	50,413	51,280
Bending and Forming Machines	28,895	35,565	34,188	29,179	28,983
Forging Machines	26,345	20,759	23,826	13,496	24,888
Other Machines	55,687	52,286	57,399	61,866	60,236
Total	288,929	262,647	276,698	270,056	254,328
Total Machine Tool Exports	1,239,144	1,446,718	1,689,899	1,267,020	1,254,012

*The following average annual exchange rates, calculated by the Ministry of Finance, were used to convert the yen export figures: 1979, Y217.47; 1980, Y227.67; 1981, Y219.90; 1982, Y248.33; and 1983, Y237.52.

Source: Japan, Ministry of Finance, Japan Exports and Imports: Commodity by Country

Table 11: Japan's Exports of Machine Tools to the United States, 1979-83

(in thousands of dollars*, f.o.b. value)

	1979	1980	1981	1982	1983
Metal-Cutting Machine Tools					
Lathes	$183,232	$231,171	$338,118	$196,718	$120,169
Numerically Controlled	158,906	207,942	315,673	178,490	114,919
Machining Centers	60,649	119,386	222,164	165,897	170,581
Grinding Machines	17,036	28,901	27,942	25,293	13,691
Numerically Controlled	684	597	1,729	4,345	3,725
Milling Machines	11,822	26,322	38,362	16,448	10,172
Numerically Controlled	2,623	13,648	26,907	10,751	8,178
Boring Machines	17,867	21,958	20,585	15,889	4,557
Numerically Controlled	3,539	5,510	3,438	5,737	2,319
Drilling Machines	6,173	8,947	7,853	3,848	5,979
Numerically Controlled	28	137	1,255	411	4,864
Gear Cutting and Finishing Machines	7,265	2,672	1,466	1,680	507
Planing Machines	0	0	325	2	0
Electric Discharge Machines	9,330	20,929	14,002	10,536	23,644
Other Machines	10,567	8,941	22,262	11,202	15,218
Total	323,940	469,225	693,079	447,513	364,518
Numerically Controlled	226,429	347,220	571,165	365,630	304,586
Metal-Forming Machine Tools					
Mechanical Presses	12,626	10,051	11,803	31,705	11,597
Hydraulic Presses	6,573	2,350	7,115	3,389	4,911
Shearing and Punching Machines	13,102	23,629	34,230	21,275	21,006
Bending and Forming Machines	2,013	1,627	1,313	1,130	1,497
Forging Machines	6,174	6,661	4,401	3,024	4,043
Other Machines	5,006	2,770	5,018	10,809	8,252
Total	45,494	47,087	63,880	71,332	51,306
Total Exports to United States	369,434	516,313	756,959	518,845	415,824

*The folllowing average annual exchange rates, calculated by the Ministry of Finance, were used to convert the yen export figures: 1979, Y217.47; 1980, Y227.67; 1981, Y219,90; 1982, Y248.33; and 1983, Y237.52.

Source: Japan, Ministry of Finance, Japan Exports and Imports: Commodity by Country

Table 12: Japan's Total Imports of Machine Tools, 1979-83

(in thousands of dollars*, c.i.f. value)

	1979	1980	1981	1982	1983
Metal-Cutting Machine Tools					
Lathes	$17,102	$22,315	$27,353	$25,270	$14,188
Numerically Controlled	8,415	1,656	1,892	5,529	3,072
Machining Centers	0	0	0	0	0
Grinding Machines	35,133	55,731	67,524	67,729	43,631
Numerically Controlled	2,223	3,827	8,189	13,042	7,034
Milling Machines	18,128	23,111	15,341	14,145	9,633
Numerically Controlled	1,187	7,502	4,024	5,571	452
Boring Machines	8,659	5,828	7,771	5,990	2,969
Numerically Controlled	1,512	1,470	1,396	1,818	1,400
Drilling Machines	6,575	5,066	3,899	5,688	11,369
Numerically Controlled	217	2	0	1,490	1,903
Gear Cutting and Finishing Machines	17,272	32,321	29,892	32,951	11,121
Numerically Controlled	0	1,342	0	0	770
Planing Machines	134	83	- 0	258	286
Electric Discharge Machines	6,155	7,326	7,173	5,225	7,887
Numerically Controlled	1,549	2,924	4,184	3,481	5,597
Other Machines	11,389	15,965	16,656	18,277	35,776
Numerically Controlled	2,458	1,038	51	3,254	4,517
Total	120,548	167,747	175,609	175,533	136,861
Numerically Controlled	12,561	19,761	19,735	34,185	24,744
Metal-Forming Machine Tools					
Mechanical Presses	7,747	7,078	4,308	6,357	6,895
Numerically Controlled	0	0	0	0	352
Hydraulic Presses	3,958	5,091	1,766	5,416	4,069
Shearing and Punching Machines	2,996	5,376	4,401	3,442	4,647
Numerically Controlled	1,160	2,393	2,341	1,400	3,783
Bending and Forming Machines	9,591	10,932	6,466	3,490	3,648
Numerically Controlled	1,501	4,314	967	619	194
Forging Machines	8,171	8,062	11,157	15,858	3,648
Numerically Controlled	0	0	0	6	0
Other Machines	12,860	15,691	12,718	10,692	11,180
Numerically Controlled	376	418	1,237	1,267	1,560
Total	45,328	52,229	40,816	45,255	34,088
Numerically Controlled	3,036	7,124	4,545	3,293	5,890
Total Machine Tool Imports	165,871	219,976	216,425	220,788	170,949
Numerically Controlled	15,597	26,886	24,280	37,478	30,634

*The following average annual exchange rates, calculated by the Ministry of Finance, were used to convert the yen import figures: 1979, Y217.46; 1980, Y227.85; 1981, Y219.94; 1982, Y248.30; and 1983, Y237.59.

Source: Japan, Ministry of Finance, Japan Exports and Imports: Commodity by Country

Table 13: Japan's Imports of Machine Tools from the United States, 1979-83

(in thousands of dollars*, c.i.f. value)

	1979	1980	1981	1982	1983
Metal-Cutting Machine Tools					
Lathes	$1,814	$926	$3,076	$3,926	$341
Numerically Controlled	52	468	1,846	2,801	311
Machining Centers	0	0	0	0	0
Grinding Machines	6,516	12,044	16,941	17,544	8,802
Numerically Controlled	1,325	2,575	5,569	4,997	1,866
Milling Machines	4,829	7,660	1,497	884	1,488
Numerically Controlled	742	4,988	157	824	269
Boring Machines	1,937	765	728	1,556	585
Numerically Controlled	1,512	657	454	907	464
Drilling Machines	309	983	304	3,183	175
Numerically Controlled	210	2	0	1,426	4
Gear Cutting and Finishing Machines	8,447	14,310	10,180	12,610	1,687
Numerically Controlled	0	784	0	0	0
Planing Machines	0	0	0	0	0
Electric Discharge Machines	512	2,222	387	40	331
Numerically Controlled	0	556	0	0	254
Other Machines	2,575	3,310	2,639	4,907	24,852
Numerically Controlled	656	1	0	170	62
Total	26,938	42,219	35,752	44,650	38,262
Numerically Controlled	4,497	10,031	8,026	11,125	3,231
Metal-Forming Machine Tools					
Mechanical Presses	3,946	4,669	1,623	1,966	1,402
Numerically Controlled	0	0	0	0	0
Hydraulic Presses	1,554	1,618	228	407	264
Shearing and Punching Machines	264	2,571	2,432	1,602	2,249
Numerically Controlled	32	1,479	1,888	1,123	2,031
Bending and Forming Machines	5,153	6,670	2,295	1,197	966
Numerically Controlled	1,501	3,455	704	524	192
Forging Machines	4,818	492	2,098	7,555	1,477
Numerically Controlled	0	0	0	6	0
Other Machines	5,068	7,478	6,410	4,892	4,056
Numerically Controlled	0	418	1,237	323	732
Total	20,803	23,497	15,087	17,619	10,414
Numerically Controlled	1,533	5,352	3,828	1,976	2,955
Total Imports from United States	47,742	65,715	50,839	62,269	48,676
Numerically Controlled	6,030	15,383	11,854	13,102	6,186

*The following average annual exchange rates, calculated by the Ministry of Finance, were used to convert the yen import figures: 1979, Y217.46; 1980, Y227.85; 1981, Y219.94; 1982, Y248.30; and 1983, Y237.59.

Source: Japan, Ministry of Finance, Japan Exports and Imports: Commodity by Country

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JEI REPORT

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September 21, 1984

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U.S. Treasury Tests Japanese Financial Waters

U.S. Treasury Under Secretary for Monetary Affairs Beryl Sprinkel led a seven-member team to Japan on September 12 to explain plans to offer as much as $2 billion worth of government bonds specifically intended for foreign purchase. The move follows an upsurge in yen-denominated bond issues by foreign public and private borrowers, prompted in large part by the April 1 financial liberalizations instituted by Tokyo.

The changes with the greatest impact to date (see JEI Report No. 22B, June 8, 1984) have been the elimination of restrictions on the sale of foreign certificates of deposit (CDs) and commercial paper; the elimination of the real-demand rule in forward exchange-market transactions; and the removal of currency swap ceilings for Japanese and foreign banks. These moves, coupled

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enactment of legislation such as S. 2618 would, in effect, create an even greater obstacle to U.S. participation in NTT procurement and in value-added networks because it incorporates the GATT-illegal concept of sectoral reciprocity into U.S. trade law. Edmund Fitzgerald of Northern Telecom objected to the bill on the same grounds and urged adoption of a two-tier strategy: an active business approach that would commit time and resources to the development of offshore markets; and an activist government that would pursue market access through existing international trade mechanisms and the imposition of certain supply-side measures, such as a 25 percent tax credit for research and development.

Barbara Wanner

Party Funds Hit New Record in 1983

Contributions to Japanese political parties hit a new peak in 1983, according to a recently released report by the Home Affairs Ministry. Reflecting the importance of last year's lower house elections, political parties garnered more than Y147.2 billion ($613.3 million) from major contributors, an increase of 34.5 percent from 1982.

The Japan Communist Party (JCP) and the Liberal Democratic Party (LDP) reported the highest donations for the year, with the JCP showing an increase of 5.7 percent over 1982 to Y22.9 billion ($95.42 million), while totals for the LDP jumped more than 72 percent to Y21.9 billion ($91.25 million). These figures do not accurately reflect the total financial resources of the parties, however, since a number of loopholes allow unreported contributions. Conventional wisdom suggests that these unreported contributions overwhelmingly favor the ruling Liberal Democrats.

All the major political parties reported increases in contributions in 1983. In addition to the lower house elections, the Japan Socialist Party's (JSP) drive to shed its staid image and begin a long-term campaign to challenge the LDP for control of the government is also thought to have contributed to an increase in interest among large contributors. More significant are the breakdowns by LDP faction. The 100 percent-plus increase in contributions to the Tanaka faction again underscores the former prime minister's importance in Japanese politics. The 29 percent rise in the Nakasone faction, however, compares poorly with larger jumps in contributions to his rivals within the party. The faction of Tanaka opponent Takeo Fukuda benefited in 1983 from an increase in contributions of over 44 percent, while donations to the Suzuki faction, now directed by former foreign minister Kiichi Miyazawa, more than doubled.

These numbers -- assuming that omissions in reporting are more or less uniform among factions -- would suggest that the 1983 elections were as important for their impact on the factions as on the LDP's standing vis-a-vis other political parties in Japan. The influx of donations to the Suzuki and Fukuda factions further suggests that the groundwork for possible candidacies of Mr. Miyazawa and current foreign minister Shintaro Abe was being laid last year.

Mr. Miyazawa appears to be the strongest contender at present, but at this point the prime minister seems to have the upper hand. According to some observers, the financial report confirms suspicions that the LDP is preparing for a "post-Nakasone" era under the direction of the party's "new leaders," with Messrs. Abe, Miyazawa and Finance Minister Noboru Takeshita leading the pack, and Health and Welfare Minister Kozo Watanabe and lower house member Rokusuke Tanaka close behind. They foresee the reelection of Mr. Nakasone for a second, two-year term, followed in 1986 by strong Miyazawa and Abe candidacies, pursued by challengers laying their own foundations for the future.

Although Prime Minister Nakasone appears to have the edge in the LDP presidential sweepstakes, challenges to his austere domestic economic policies might weaken his support. The LDP president cannot succeed himself after a second term, so Japanese pundits assume the battle among his potential successors is already well under way. However, some public figures have already suggested exploring the possibility of eliminating the two-term limitation, which would open the way for a longer reign by the incumbent.

Major Donations to Political Parties*
(in millions of yen and millions of dollars)

	Amount	Percentage Change
Japan Communist Party (JCP)	Y22,903.2 ($95.4)	5.7%
Liberal Democratic Party (LDP)	21,938.4 (91.4)	72.9
Komeito	10,179.2 (42.4)	15.0
Japan Socialist Party (DSP)	6,533.7 (27.2)	29.8
Democratic Socialist Party (DSP)	3,484.4 (14.5)	118.2
New Liberal Club (NLC)	567.2 (2.4)	47.0
Social Democratic Federation (Shaminren)	87.3 (0.4)	26.9

Top Recipients Among LDP Factions
(in millions of yen)

Faction:	1982	1983	Percentage Increase
Nakasone	Y1,527.2	Y1,979.4	29.6%
Tanaka	466.9	959.9	105.6
Fukuda	1,115.0	1,614.0	44.8
Suzuki	471.4	1,423.2	201.9
Komoto	1,228.1	1,548.8	26.1

*Totals for major donations to political parties only. Party totals do not include donations to individuals or party-affiliated organizations.

Source: Ministry of Home Affairs

Michael Chinworth

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JEI

REPORT

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REGIONAL INVESTMENT PROMOTION: THE KYUSHU EXPERIENCE

Summary

Within the last decade, Japan's central government has given increasing emphasis to industrial development in areas of the country removed from its political center. The motivations for this drive are mixed, but ultimately they center on the need to diversify industry, retain local labor and encourage less-developed areas to contribute a greater share of Japan's economy.

This report reviews the progress made by the seven prefectures on Kyushu island in western Japan to stimulate industrial growth. One of the most aggressive regions in promoting domestic and foreign investment, its successes have been numerous, but the results have not yet met expectations. A number of factors, however, might enhance the drive to attract new investors and industries to the region.

The Setting

The island of Kyushu consists of seven prefectures* with a total population of about 13 million. Its major cities include the commercial center of Fukuoka with a population of 1.1 million, the industrial area of Kitakyushu and the picturesque, historical cities of Nagasaki, Kumamoto and Kagoshima.

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*For administrative purposes, Tokyo considers Okinawa to be part of the Kyushu region, bringing the total number of prefectures to eight. For this report, only the seven contiguous prefectures of the island itself will be examined.

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Kyushu has been a cultural, economic and political force in Japan's history from early times. The thwarted invasions of the Mongols, which inspired the kamikaze myth, were launched toward present-day Fukuoka. Kyushu was Japan's sole source of outside contact with the Western world for two hundred years. Many of the leaders of the modern restoration emerged from the island and, just for good measure, the final serious threat to restored imperial rule originated in the Satsuma region of the island.

In the postwar era, however, Kyushu's importance to the nation's economy steadily waned. At one point the region contributed only a 5 percent share of the nation's gross national product with more than 10 percent of its population. The biggest blow came from worsening conditions in coal markets. Coal production was one of the region's few heavy industries, and as demand dropped, economic fortunes also declined. Similarly affected was the shipbuilding industry, hard pressed by poor sales and overseas competition.

With faltering employment opportunities, the region threatened to become a drain on Tokyo's resources. Birth rates remained constant, contributing to high infrastructure and social expenses. Typically, new members of the work force moved to large urban areas to seek employment. While industry was booming in those regions, such migration patterns were tolerable. But as cities became more crowded and slower growth limited recuitment of new workers, Kyushu, primarily an agricultural economy, was unable to absorb the excess labor. The potential for subsidies from the central government increased just at a time when fiscal policies increasingly emphasized budget restraint, smaller government and regional initiatives to handle local problems.

At the same time, the availability of land for industrial use in urban regions was beginning to dry up. Industrial development had created standing-room-only conditions in many districts, and concern over the environmental impact of industrial concentration was increasing. Overcrowding and speculation propelled prices for the remaining parcels of suitable land.

The Industrial Relocation Promotion Act, adopted by the Diet in 1972 in response to many of these problems, offered industry special incentives to locate plants in more remote regions. Although the legislation helped set the stage for diversification of industrial development in Japan, it was not completely successful under the sluggish growth conditions that then prevailed. Furthermore, the Japanese economic thrust was beginning to shift to high technology, knowledge-based industries from traditional "smokestack" industries.

Enter Technopolis

Pressed for ways to stimulate national growth and meet growing regional needs, Tokyo began considering alternatives to the economic policies that led to the rapid growth of the 1960s and early 1970s. The Ministry of International Trade and Industry (MITI) provided one alternative which has since been instituted in a limited fashion -- the Technopolis concept, designed to locate industries outside of urban areas. As outlined in MITI's "Vision of the 1980s," the original plan called for funding one technopolis, located in a

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region outside of the Tokyo area and designated solely for the purpose of attracting advanced, preferably non-polluting industries to stimulate regional development and growth. This would serve as a national model to be emulated by local governments. This plan proved difficult to institute, particularly as government budgets became tighter.

An alternative course was then adopted. Local governments could designate technopolis sites if they met specific goals, including availability of resources, transportation systems and certain services. Once the central government had approved the location, the area could begin offering potential investors special tax incentives for locating industries within the limits of the technopolis.

The Diet measure on technopolis policies specifically mandated minimum utilization of central government funds. No special government offices were created under the program; the concept, in principle, was for Tokyo to act as a backup for prefectural efforts. (In practice, the central government has exerted considerable influence on regional technopolis programs, but not always in an official capacity).

As the name suggests, one of the key policy and philosophical differences between the technopolis concept and the Industrial Relocation Act was the added emphasis on high technology development, reflecting the reduced reliance on traditional industries. A key element of the plan was to develop and link education, research and production facilities within the same area, creating self-contained technological cities. And the most important consideration was to keep people at home. Technopolis areas in Kyushu, for example, have been located in precisely the same areas that have accounted for the greatest population migration over the past 60 years.

Prefectural governments in the Kyushu area jumped at the technopolis plans. The proposals precipitated local spending drives to expand regional airports into international facilities capable of receiving wide-bodied jets; highway extensions to link major commercial centers; and an emphasis on promotion drives to attract investors from Japan and other countries, especially the United States. Of the 19 officially designated technopolis centers in Japan, six are located in Kyushu -- an indication of the prefectural governments' aggressiveness. Most of the technopolis-related expenditures, while motivated by central government policies, have been funded by local sources.

The Kyushu Sales Pitch

Kyushu boosters have marshalled an array of data and arguments to persuade companies to locate in their region. Productivity rates in Japan are high in a number of industries, and those rates are generally uniform throughout the country. Kyushu workers pride themselves on their diligence, while sometimes grumbling that their Tokyo-based counterparts have lost the drive that characterized Japanese labor for decades. A related point is the quality consciousness of Japanese workers and managers and Kyushu promoters again insist that their attention to quality exceeds national standards.

Over the last year, the island's production levels have increased about two percentage points above the national average, suggesting a reviving local economy. Aiding that trend is an inflation rate that is lower than the national average by about the same margin. Wage levels are also considerably less than those in Tokyo and other highly urban regions; a 1980 study indicated that Kyushu wages in manufacturing were only 75 percent of the average level in Tokyo. All thse factors, supporters insist, help create a favorable environment for domestic or foreign concerns considering expansion of their operations.

By investing directly in Kyushu, business and government leaders argue, direct access to regional and national markets is possible. The Kyushu market itself -- 13 million strong -- is often ignored, they claim, by many companies entering Japan, and could be a source of new sales for American firms willing to make the effort. Transportation facilities provide direct access to Tokyo sales regions as well. Finally, the proximity of Kyushu to the Asian mainland offers export possibilities to Southeast Asian countries for aggressive companies.

No one in Japan will argue that the country's distribution system is simple to understand. Regional officials admit that the system can be complicated for domestic firms, and formidable for foreign companies. They suggest that direct investment is one of the best ways to get around these problems. The special features of Kyushu, they say, mean that returns on investments can be higher than home operations, and even above their Japanese competitors.

Further, the importance of Kyushu is considerable in certain key areas. For example, although the shipbuilding industry has fallen on hard times, Kyushu still accounts for about one-fourth of total Japanese production. Heavy concentrations exist in other major industries, including chemicals and steel, offering prime investment or sales opportunities to U.S. companies.

Transportation facilities and the ease of air cargo are consistently emphasized in Kyushu promotions. Eighteen of Japan's 70 major airports are located on the island, including four international airports and six facilities that are designed to handle widebodied jets. Land prices are two-thirds lower than those in the Tokyo area. Educational standards are as high as national levels: there are 115 universities and colleges within the island's seven prefectures, of which 44 are technical colleges. Kyushu University, located in Fukuoka, ranks at least third in the nation in stature.

Many American observers and businessmen with experience in Japan agree with the points raised by their Kyushu counterparts. A significant aspect, experienced observers suggest, is that Japanese markets are structured so that entry into one area offers national potential. This applies, for example, to the telecommunications industry, with many American companies concentrating solely on the Tokyo market. Regional markets in advancing areas are being ignored, some feel, or given secondary emphasis when they should get at least equal billing.

It is also noted that a national reputation can be established more quickly in some cases by testing regional markets first. Completely successful sales in one part of the country can improve opportunities in other areas. Furthermore, even when the target is a Toyko sale, it is wise to "touch base" with plant managers and other corporate officials in outlying areas, according to regional specialists. Local branches inevitably will be consulted at some point, making it incumbent upon the American firm to build support within a firm by reaching out to all its elements. "Companies that neglect regional markets," one Kyushu hand says, "are doing themelves an injustice."

Promotional Campaigns

In order to spread the word on these and other perceived strengths, Kyushu business and government leaders, teamed with representatives of the national government, including the Japan Development Bank, toured the United States in 1983 to visit prospective investors. Tour organizers followed up their contacts by sending potential customers a newsletter published in English.

Officials involved in the tour said that it produced few firm offers, but reached a large group of potential investment candidates that knew little, if anything, about regional markets in Japan. The problem facing island-wide boosters is that when firm possibilities arise, prefectural interests and parochialism often prevail over broader concerns. "We have been trying to promote the idea of 'One Kyushu'," notes Yoshio Kawahara, a managing director for Kyushu Electric Power Company (KEPCO) and former government official. If Kyushu prefectures are expected to make greater contributions to overall national growth, he reasons, then they must cooperate to emphasize their collective strengths rather than compete with one another for foreign and domestic investors.

Despite local competition, officials do provide basic information to investors, listing industrial sites immediately available in a 200-page handbook financed by KEPCO. Descriptions for each site include data on size, access to transportation facilities, land and utility prices and contacts for additional information. So far, the handbook is available only in Japanese, but an English-language edition is planned for publication in the near future, again using private-sector finances.

Budget constraints have limited the extent of prefectural contacts with potential investors, leaving most of the campaign to the personal influence of local leaders and their own circle of contacts. The stature of certain officials, such as Mr. Kawahara, who served in the Japanese government for decades, helps his prefecture reach out to potentially interested parties. But other, less well-connected prefectures could be at a disadvantage in promoting their localities.

In terms of personal appeal and drive, no one stands out more than the governor of Oita prefecture, Morihiko Hiramatsu. A former career official in the Ministry of International Trade and Industry (MITI), Governor Hiramatsu has combined personal charm with dogged determination to bring impressive results to an area that was once known primarily for its hot springs resorts. Under his leadership, Oita has introduced investments from major Japanese and American companies, including TDK Electronics Co., Toshiba Corp., Materials Research Corp. (MRC), Sony Corp., NEC Corp. and Kyushu Matsushita Electric Co.

G.D. Searle & Co. is about to expand its operations to the prefecture and the governor claims he has other companies that are interested in locating there.

Oita has all the features mentioned earlier, but it is clearly the personal involvement of Gov. Hiramatsu that has made a difference in the prefecture's track record. The governor offers to assist potential investors in such areas as selecting suitable sites and arranging favorable land leases or investment incentives. He is said to have played a role in recruiting top managers for Texas Instruments Inc.'s Oita plant, a favor he duplicated for the New York-based MRC when it began its search for managers.

Mr. Hiramatsu insists that the personal chemistry between potential investors and recipients is so important that it demands direct involvement. In explaining why one American electronics company decided to locate in Oita, he said, "I spent several years at MITI in charge of electronics policies before becoming governor." The firm's president, he noted, "knew he could trust me; he knew that I understood the electronics industry."

Kyushu has few additional plans for advertising the area's virtues to foreign industrialists. Domestic customers can be contacted through normal business ties and channels, but reaching out to overseas companies -- a key element in the regional development strategy -- will be more difficult. Unlike individual U.S. states, prefectural governments are limited in their ability to establish overseas promotional offices. A major element contributing to the success of American states in attracting Japanese investors appears to be their presence in Tokyo: 26 states have representative offices in Japan and more may be on the way. Gov. Hiramatsu says he would like to have representative offices in the United States, "but we just don't have the budget." Furthermore, legal restrictions limit the prefectures' power to establish independent overseas offices. Kyushu does, however, have a representative based in the New York office of the Japan External Trade Organization (JETRO).

The Role of the Central Government

Broader policies have been plotted by the central government to foster regional development. As part of its program, MITI has generated an industrial site data base listing more than 2,200 locations. By completing a short form and submitting it to the agency, potential investors can identify areas of interest across the country. MITI also plays an active role in long- and short-term development planning, as in the technopolis scheme, as well as providing industrial relocation subsidies and administrative counseling to individual companies. Its services include keeping interested companies abreast of developments through its English-language publication, Industrial Development in Japan.

The Japan Development Bank also plays an important role in regional development through low-interest loans, which have benefited Kyushu prefectures more than once. The same terms are available to foreign and domestic firms alike. Between 1978 and 1982 there were 82 applications from foreign firms for Y53.3 billion ($22.2 million) in loans. MRC became the first totally foreign-owned venture to receive a JDB loan when it secured funds of Y200 million (just under $1 million) for its Kyushu facility. The JDB program has been expanded to offer special loans beginning in fiscal year 1984 to qualifying foreign firms.

Besides receiving preferential interest rates of about 7.9 percent, the JDB loans offer additional advantages to newcomers in Japanese markets. The funds are secured from private banks, offering companies the opportunity to begin establishing relations with credit organizations in the country, an important consideration for long-term survival in Japan.

Officials in Toyko insist that their role should be kept to a minimum -- in this case, support services. This has led to suspicions that Tokyo is directing development policies without actually having to pay for them with central government funds. A government official dispatched from MITI to Fukuoka prefectural offices says that "there is an element of truth" in the complaints, but that current policies and trends are in keeping with more fundamental changes in philosophy concerning the role of the central government. Tokyo should assist in the programs, he says, but efforts should remain at the regional level. The era of big government -- and correspondingly generous central subsidies -- is past, he concludes.

The Track Record

The results of these efforts have been mixed, but overall one receives a favorable impression. The most notable improvement, in keeping with the technopolis philosophy, has been in the semiconductor industry. Production in the Kyushu region has grown so rapidly that the area is now producing almost 40 percent of the semiconductor industry's total national output. Supporting industries have begun entering the area, encouraging local officials to refer to the region as "Silicon Island." Production in other industries has improved, but still lags far behind national averages in many categories. As a consequence, critics have charged that the promotional efforts have not been the success that some claim. The growth of the semiconductor industry, they contend, was a natural development sparked primarily by the entry of Texas Instruments rather than by public relations efforts. That other firms would follow TI's lead, they conclude, was a natural progression. Deficiencies in other industrial categories only underscore this point, they charge.

Supporters of the program nevertheless insist that the heavy emphasis on attracting outside investors is justified even if it produces only a few successes each year. With every plant and production line built in Kyushu, they emphasize, the chances of another catastrophic downturn such as the one following the demise of the coal industry lessens.

It is still too soon to determine if the development campaign has benefited Kyushu vis-a-vis other prefectures. It has certainly resulted in at least an improved image. Successes have been publicized more effectively than those in other prefectures and success has a habit of breeding success. Government officials in Tokyo and independent observers all agree on one thing, however: Kyushu has been the most aggressive suitor of domestic and foreign investors and will remain so for the foreseeable future.

The effects on the island's renowned natural beauty have been limited, although many residents in more populated areas have begun complaining vociferously of crowded streets. Growth has not yet stimulated inflationary trends in land or consumer prices. But the industrialization of Japan's hinterlands is beginning to show less desirable results in other respects. It is possible that competition for labor, particularly in the booming semiconductor industry, has initiated wage wars that could ultimately affect their competitiveness. Qualified personnel may be more difficult to attract in the years to come. Five of Japan's six largest integrated circuit producers have located facilities in the region, leading to competition in the labor force. Even officials at the usually tight-lipped Texas Instruments facility suggest that it is becoming increasing difficult to recruit and retain qualified personnel. The situation is symbolized by TI's own loss of its plant manager to MRC, a case of executive poaching that is uncommon for a country which touts its lifetime employment system.

Some planners are concerned that there has been too much emphasis on electronics in the region and hope to attract other types of industries. Although it is doubtful that the semiconductor industry could become another coal or shipbuilding albatross, many regional planners hope to see more diversification as a hedge against undue reliance on a particular sector. "From my own personal viewpoint," says Shinjiro Nakanishi, director-general of the Fukuoka Bureau of International Trade and Industry, "I think we should at least try to bring in more front-end operations in the semiconductor industry."

Bilateral Impact and Implications

The emphasis on attracting investment into Japan may be a welcome development for American companies that hesitated to test markets there. Some critics have suggested, however, that the current drive is just another means of preventing American finished products from entering Japanese markets. Japan may not be able to resist opening its markets, they contend, but it can certainly minimize the negative impact on its own trade balances by encouraging domestic production, using local labor and management but foreign capital.

"That is totally wrong," declares one Foreign Ministry official responsible for overseeing international investment programs. Japan is painfully sensitive to current and projected bilateral imbalances, he states, and has singled out the United States for special treatment in trade and investment. Japanese purchases are not politically motivated, he insists ("NTT bought a Cray computer because it needed it"), but U.S. trade and investment has been given special priority in terms of reducing barriers and eliminating obstacles. If American companies try to manufacture or sell products and services appropriate to Japanese markets, he concludes, they can succeed, "but don't try to bring in 19-cubic-foot refrigerators or cars with the steering wheel on the wrong side."

Outlook

The regional development experience of Kyushu has been successful, but in a limited fashion. It has boldly offered alternatives to American businesses to enter Japanese markets by bypassing the usual Tokyo-Yokohama-Osaka bullet-train route and entering directly into potentially more receptive and more challenging regions. Potential for expansion into other Asian markets exists, but this appears to be a more long-term consideration. In the meantime, Gov. Hiramatsu and his colleagues will continue to promote "One Kyushu" as best they can, with or without overseas offices and despite or perhaps because of support from Tokyo.

Profile of Kyushu's Seven Prefectures

Prefecture	Population (millions)	Area (sq. miles)
Fukuoka	4.57	1,913
Saga	0.88	939
Oita	1.24	2,445
Nagasaki	1.60	1,586
Kumamoto	1.81	2,859
Miyazaki	1.17	2,986
Kagoshima	1.80	3,538

Sectoral Contributions to Kyushu Industrial Shipments, 1980

Category	Kyushu	National Average
Foodstuffs	18.8%	10.5%
Iron, steel	13.7	8.3
Chemicals	9.3	8.4
Non-metallic mineral products	7.9	3.9
Transportation equipment	5.7	11.6
Machinery	6.5	8.2
Electrical machinery	5.1	10.4
Lumber/lumber products	4.6	2.5
Metal products	4.3	5.0
Textiles/apparel	3.9	5.2
Other	20.2	26.0

For additional information concerning regional development and investment programs in Japan, contact:

Ministry of International
Trade and Industry
Industry Location Guidance Division
Industrial Location and
Environmental Protection Bureau
3-1 Kasumigaseki, 1-chome
Chiyoda-ku
Tokyo 100 Japan
03/501-1511

Japan External Trade Organization
Planning and Information Section
2-2-5 Toranomon
Minato-ku
Tokyo 105 Japan
03/582-5511

Japan Development Bank
International Department
Loan Division
9-1 Ohtemachi, 1-chome
Chiyoda-ku
Tokyo Japan
03/245-3211

Information for specific prefectures can be obtained by contacting the following offices:

Fukuoka prefecture:
Regional Development Section
Planning and Development Dept.
7-7 Higashikoen
Hakata-ku
Fukuoka 812 Japan

Saga prefecture:
Manufacturing and Mining Section
Commerce, Industry and Labor Dept.
1-59 Jonai, 1-chome
Saga 840 Japan

Nagasaki prefecture:
Industrial Location Section
Economic Dept.
2-13 Edomachi
Nagasaki 850 Japan

Kumamoto prefecture:
Industrial Investment and
Promotion Office
Commerce, Industry, Tourism
and Labor Dept.
18-1 Suizenji, 6-chome
Kumamoto 862 Japan

Oita prefecture:
Industry and Mining Section
Commerce, Industry and Labor Dept.
1-1 Ohtemachi, 3-chome
Oita 870 Japan

Miyazaki prefecture:
Commerce and Industry Promotion Section
Commerce, Industry and Labor Dept.
10-1 Tachibanadori-higashi, 2-chome
Miyazaki 880 Japan

Kagoshima prefecture:
Development Coordination Section
Planning Department
14-50 Yamashitamachi
Kagoshima 892 Japan

Okinawa prefecture:
Industrial Location Policy Section
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1-2-32 Izumizaki
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Fukuoka Bureau of International
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2-11-1 Hakataeki-higashi
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The views expressed in this report are those of the author and do not necessarily represent those of the Japan Economic Institute.

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JEI REPORT

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FY 1984 Growth Forecast Raised After Solid Second Quarter

The broadest measure of Japan's output of goods and services rose at a 6.7 percent annual rate in the second quarter of calendar 1984, according to figures recently released by the Economic Planning Agency (EPA). Japan's inflation-adjusted gross national product (GNP) totaled Y221 trillion ($902 billion at Y245=$1.00) for the April-June period, compared with Y217 trillion ($888 billion) for the first three months of the year. The strong showing for the first six months of 1984 led EPA to raise its growth estimates for fiscal year 1984 by 1.2 percentage points to 5.3 percent.

The accompanying table summarizes the economy's second-quarter activity and highlights the strengths and weaknesses of Japan's recovery. Private fixed nonresidential investment continued to barrel along, expanding at a 10.3 percent annualized rate. A Nihon Keizai Shimbun survey shows that industry as a whole is planning to increase its FY 1984 capital spending by 2.7 percent over initial budgets, which themselves were 8 percent higher than FY 1983 results. The manufacturing sector has upped planned outlays for plant and equipment from Y5.7 trillion ($23 billion) in nominal terms to Y6 trillion ($25 billion), a 6 percent increase.

The dip in the growth of capital spending from the first quarter's 12.3 percent rate may reflect a less frantic attitude by Japanese managers, who were caught off-guard by the strength of the U.S. recovery and poured money into new projects. On the other hand, the continuation of double-digit growth points to the underlying strength of the recovery, as industry takes an increasingly optimistic view of medium-term prospects.

The other mainstay of growth in the April-September 1984 quarter continued to be the net external sector, which grew a very healthy 36.3 percent, although this rate was off from the first quarter's 44.5 percent expansion. Exports continue to pick up speed, passing the 20 percent annual growth mark, but imports returned to double-digit levels.

While the second quarter's 6.7 percent real annual growth figure represented a decline from the previous period's 7.6 percent rate, the pace of expansion in those three months surpassed earlier government growth forecasts. On the strength of this six-month record, the EPA issued a revised forecast for FY 1984.

Revised Economic Outlook for FY 1984

(percentage increase from previous fiscal year)

	Revised Forecast		Previous Forecast	
	Real	Nominal	Real	Nominal
GNP	5.3%	6.5%	4.1%	5.9%
Private Final Consumption	3.6	6.2	4.1	7.1
Private Housing	4.0	5.9	5.2	6.6
Private Capital Spending	8.1	8.1	5.1	6.1
Government Spending	1.7	2.1	0.2	1.5
Wholesale Prices	0.6%		1.0%	
Consumer Prices	2.6		2.8	
Current-Account Surplus	$33 billion		$23 billion	
Trade Surplus	$44 billion		$34 billion	

The surge in capital investment and exports is a mixed blessing. EPA analysts feel that industry is plowing such a large percentage of its profits into plant and equipment that there is not enough for as large a wage increase as first forecast. Therefore, consumer spending, which accounts for half of Japan's GNP, will grow only 3.6 percent in real terms in the April 1984-March 1985 fiscal year instead of 4.1 percent as originally hoped. The hefty hikes in the predicted current-account and trade surpluses may rekindle trade frictions with Japan's partners, posing a political challenge to Prime Minister Nakasone.

Japan's Real Gross National Product at Constant Prices (1975 Prices)

(in billions of yen, seasonally adjusted, quarterly totals and rates of growth at annual rates)

	FY 1982	FY 1983	July-September 1983	October-December 1983	January-March 1984	April-June 1984
Gross National Product	Y205,260.3 (3.3%)	Y212,814.6 (3.7%)	Y211,856.1 (6.2%)	Y213,500.8 (3.1%)	Y217,459.8 (7.6%)	Y221,009.0 (6.7%)
Personal Consumption Spending	108,092.5 (4.6%)	111,254.8 (2.9%)	110,848.1 (3.4%)	111,452.2 (2.2%)	112,826.6 (5.0%)	113,209.7 (1.4%)
Private Residential Construction	10,805.2 (1.3%)	10,016.6 (-7.3%)	9,904.1 (14.4%)	10,464.2 (24.6%)	10,218.7 (-9.1%)	9,993.9 (-9.1%)
Private Fixed Nonresidential Investment	35,208.3 (2.8%)	36,539.5 (3.8%)	36,002.0 (7.0%)	36,767.7 (8.8%)	37,852.4 (12.3%)	38,793.9 (10.3%)
Change in Business Inventories	1,237.9 (-30.4%)	708.9 (-42.7%)	400.4 (*)	891.7 (*)	658.8 (*)	967.6 (*)
Government Current Expenditures	19,347.3 (2.0%)	19,951.4 (3.1%)	19,843.5 (4.6%)	20,046.9 (4.2%)	20,294.6 (5.0%)	20,169.0 (-9.8%)
Government Fixed Investment	18,470.2 (1.1%)	18,458.0 (-0.1%)	18,932.2 (3.5%)	18,381.3 (-11.1%)	17,894.2 (9.0%)	18,652.4 (18.1%)
Change in Government Inventories	-371.2 (-136.3%)	-261.8 (-29.5%)	-165.6 (*)	-676.3 (*)	-17.4 (*)	62.7 (*)
Net External Sector	12,470.2 (6.9%)	16,147.2 (29.5%)	16,091.4 (42.8%)	16,173.1 (2.0%)	17,731.9 (44.5%)	19,159.8 (36.3%)
Exports of Goods and Services and Factor Income Received	40,282.6 (0.7%)	44,053.5 (9.4%)	43,292.3 (23.0%)	44,987.1 (16.6%)	46,946.1 (18.6%)	49,201.9 (20.7%)
Imports of Goods and Services and Factor Income Paid	27,812.4 (-1.9%)	27,906.3 (0.3%)	27,200.9 (12.9%)	28,814.0 (25.9%)	29,214.2 (5.7%)	30,042.1 (11.8%)

*Cannot be calculated or meaningless.

Source: Economic Planning Agency

Weak performances again plagued the residential housing and personal consumption sectors in the April-June quarter, indicating the persistent uneveness of the recovery. All things considered, however, the Japanese economy will continue to grow at a steady clip, paced by strong domestic business investment and insatiable foreign demand.

Jon Choy

Yen Resists Dollar's Rise

September was a banner month for the high-flying U.S. dollar: it broke exchange rate records against every major European currency. Only the yen was able to resist the dollar's charge as it flirted with the Y250=$1.00 barrier but failed to pierce it. Market observers suggested that Europeans had lost faith in their own currencies, sparking the stampede into dollars, and that European and Japanese speculators acted more boldly, depressing the yen and other currencies.

The dollar was weakest at the beginning of September and then strengthened steadily against the Japanese yen, British pound, German mark and French and Swiss francs, hitting its highest point in the third week before receding. At the end of the first day of September's trading, a dollar bought 0.768 pounds, 2.912 marks, 8.913 French francs or 2.427 Swiss francs on the New York foreign exchange market. On September 20, the dollar set new records against its Atlantic brethren, trading for 0.821 pounds (a 6.4 percent gain), 3.140 marks (a 7.8 percent appreciation), 9.628 French francs (an 8.02 percent jump) and 2.568 Swiss francs (a 5.82 percent rise). The West German central bank tried in vain to hold back the dollar's advance, buying $250 to $500 million worth of marks during the first week of trading. As the impotence of intervention, even on this large scale, became apparent, European monetary officials left the market and let their currencies float.

After gaining 1.71 percent against the dollar in August (calculated on an end-of-month to end-of-month basis), the yen lost 1.74 percent in September. The dollar hit a 22-month high against the yen on the 18th, rising to Y248.65 before closing at Y248.30 -- a 2.58 percent appreciation over the first of the month's Y242.05 figure. Ending September at Y245.50, the yen's average median rate was Y245.24, nearly a full three-yen gain over the previous month's average of Y242.30. The daily volume averaged a moderately heavy $1.510 billion, up from August's $1.420 billion average, mostly due to five days of trading in excess of $2 billion.

A comparison of the dollar's September gains against the five major foreign currencies demonstrates the yen's strength. Rising 4.9 percent over the Swiss franc, 5.2 percent vis-a-vis the French franc, 5.4 percent against the pound and 6.3 percent against the West German mark, the greenback made only minor inroads against the yen, gaining 1.74 percent. When the dollar's high-water marks are compared, the difference becomes even greater -- the yen yielding a maximum 2.58 percent, while the European monies lost from 5.82 percent to 8.02 percent at their low points. The yen's resistance is clearly due to the strength of Japan's economy and its growth prospects. The Bank of Japan found no need to intervene, and bank Governor Maekawa expressed confidence that there were no underlying factors that might depress the yen.

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REPORT

NO. 39A

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VENTURE CAPITAL IN JAPAN

Summary

After reaching epidemic proportions in the United States, venture capital fever has infected Japan. As the nation begins to redirect the thrust of its economy from the traditional smokestack configuration toward knowledge-intensive industries, it has watched with envy the high degree of innovation and creativity in the U.S. economy that has been fueled primarily by venture capital. In attempting to emulate American achievements, Japan faces cultural and structural shackles that prevent the development of venture capital and venture business along U.S. lines. In order to compensate for these weaknesses, the Japanese government has devised direct and indirect measures to support this fledgling industry. The problems, status and prospects of Japan's venture capital market are described in this report.

What is Venture Capital?

Venture capital, in the U.S. context, can be defined as a professionally managed pool of private capital devoted to funding new businesses started by entrepreneurs with a innovative product. Venture capitalists provide infusions of financial resources to inventors who are unable to convince more traditional financiers to back their projects. Venture funds can provide the seed money to establish a company or pay for product development, production and marketing. In return, investors can reap huge capital gains when a firm goes public after establishing its growth potential. It is important to note that until the venture business goes public, the backer usually receives no return on his investment. Thus, innovative products, which might not have made it to market, have been successfully commercialized because this inexpensive source of capital was available.

Venture capital differs significantly from traditional investment vehicles in several other important respects. Venture capitalists are willing to bear a high amount of risk in their investments in return for capital gains. Characteristically, the emphasis is on new products and new businesses; it is unusual for a venture fund to invest in an old-line firm, or in a company that did not start out as a venture business. This does not rule out joint ventures with established firms to create new enterprises, however. Further, in most cases only proposals that offer very high rates of growth attract venture capital. Venture money has therefore tended to bolster pioneering firms, such as biotechnology companies, or those that can carve out a niche in a fast-growing industry (electronics or service firms, for example). Finally, venture capitalists are not subject to government regulation and can make decisions very quickly, and with unparalleled agility.

The United States: Venture Capital Hothouse

In many respects, the United States is heaven on earth for venture capitalists -- a situation that has been studied by Japan and other countries hoping to set off their own venture capital boom. U.S. cultural and economic factors combine in a complex and subtle fashion to form the free-wheeling environment venture managers and budding businessmen need to flourish. Isolating these factors and interactions is difficult and the following discussion of key points is by no means exhaustive.

Economic Factors - As the United States entered the post-industrial era in the 1960s and 1970s, the country faced a decline in comparative advantage in basic smokestack industries. Capitalizing on the tremendous amounts of money poured into research and development, the nation's economic strategy began to shift toward services and high technology industries. Venture capital was a major force supporting this shift. As the changes gained momentum, the environment became even more favorable and the number of venture startups began to snowball.

The rapid advance of the technological frontier and the heavy demand for services tended to favor small firms that could profitably target a discrete market and move quickly to meet its needs. Big firms were too rigid to adapt to rapidly changing markets; nor could they fund and develop every product made possible by technological breakthroughs. The technology revolution opened up a vast array of markets, leaving plenty of room for both large and small enterprises. By focusing on specialty markets or developing new ones, small firms avoided direct competition with large corporations and opened the door to explosive growth.

Finally, the U.S. government provided a positive climate for venture activities through tax laws that favored both individual and corporate capital gains. Regulatory structures that gave venture managers a relatively free hand in structuring portfolios also helped. More direct support was offered through the Small Business Act of 1958, which sparked the creation of small business

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investment companies (SBICs). In the early years, SBICs, under the eye of the Small Business Administration, provided equity and long-term loans to small entrepreneurs. To compensate for the modest return earned from interest payments, SBICs began to incorporate stock-purchase options into their loan packages, heightening their interest in venture activities. In 1983, 285 SBICs invested $412.9 million in 2,464 deals, 61 percent of which were with companies under three years old and 28 percent of which were startups.

A wide variety of financial instruments is available to venture fund professionals, allowing them to tailor their offerings to the needs of investors and borrowers. In fact, new instruments are often created in response to new opportunities. Flexible financial structures have played an important role in quickly channeling funds to new companies with new needs. The existence of a well-developed system for selling and trading shares in small firms has also fostered the venture industry. The NASDAQ (National Association of Securities Dealers Automated Quotation system) over-the-counter (OTC) market permits small companies to go public and allows venture investors to unload their holdings. The increased liquidity the NASDAQ system offers helps lower the risk to both borrowers and investors.

Effects of Cultural Factors - The American psyche itself has been responsible for the flowering of venture financing and enterprise. U.S. society rewards risk taking, individual initiative and personal success, and values independence, individual wealth and personal enjoyment. Venture activities are not only accepted but encouraged and admired.

A high degree of job mobility in high technology and services industries is also important. The list of major computer companies established by ex-employees of other electronics firms is long and continues to grow. The willingness to leave an employer coupled with the social approval attached to independence is vital to the proliferation of innovative venture businesses. Equally important is the deep reservoir of trained people available in both the financial and technical fields. Foresight and creativity must be complemented by technical skill. In addition, there must be enough skilled people to spark and sustain a venture industry.

The synergy between these structural and cultural factors has created an industry where annual returns of 30 to 40 percent are expected and considered the norm. While individual venture capital successes exist in every Western industrialized country, none have yet experienced a full-fledged explosion similar to the one helping fuel U.S. growth. Japan has tried to transplant the American experience, and while its efforts are beginning to pay off, its venture industry is small by comparison with its U.S. tutor and far behind in terms of maturity.

Japan's Venture Capital: Cutting Down A Forest of Obstacles

Through the 1960s and 1970s, Japan's governmental, institutional, cultural and economic conditions stifled venture capital funds and straightjacketed daring entrepreneurs. Only in the past four years have public and private leaders realized the need to change this environment. Japan is also entering the post-industrial phase, and it too seeks to ride a wave of venture capital to a prosperous future.

Governmental Hurdles - With all its energy focused in the immediate postwar period on rapidly rebuilding the war-torn economy, Tokyo decided to emphasize support for big corporations that had the resources to pour into basic industries. Small businesses were seen as appendages of major companies, subservient to national goals. Although a small-business agency was created in the 1960s, its activities were not significant in the country's growth. The neglect continued until just recently and created psychological barriers to venture capital in the bureaucracy and in industry.

Almost overnight, venture capital is on the minds of bureaucrats and politicians. The Ministry of International Trade and Industry (MITI) has embraced its small-business bureau after giving it the cold shoulder for many years. MITI considers venture capital to be so important that it has proposed tax breaks for venture investors, has sponsored conferences and associations, and even offered low-rent commercial space where entrepreneurs can trade ideas and advice as well as pursue their business ambitions. Local governments have also jumped into the fray, with 34 of 46 prefectures sporting some kind of venture business promotion organization. Positive signals are pouring out of Tokyo and businessmen are taking heed.

One incentive favoring venture capital undertakings in Japan is the tax exemption of individual capital gains. Heavy corporate taxes and laws favoring investments in existing companies, however, have inhibited corporate participation in venture funds and severely limited their size. Moreover, the degree of regulation exercised by the government until the 1980s sharply curtailed the range of activities open to financial institutions.

While the tax structure remains relatively unchanged, liberalization of financial markets is now Tokyo's stated aim. The barriers between commercial and long-term credit banks, trust, pension and insurance funds had been eroding under the pressure of competition, but the movement toward decontrol is important because of the increased variety of financial instruments now available. Liberalization will also sharpen rivalries, jarring conservative financiers out of their complacent habits.

Institutional Barriers - Japan's financial system is renowned for its closed and inflexible nature. The excellent credit ratings and collateral required to secure a loan from traditional sources preclude independent application by most small companies. Financial institutions encourage loan officers to fund investments with a mediocre but safe return. Even companies that claim to be venture capitalists often behave conservatively because of links with traditional institutions. Quick, independent decisions are rare in Japan, hobbling efforts to adapt to new conditions or emerging markets.

There is evidence that this situation is slowly changing. Lower economic growth has reduced capital needs in basic industries and lenders are suddenly fighting to land new borrowers. Lower growth reduces profits for financial institutions as well, spurring the search for new high-paying investments. Risk thresholds are being raised, and much more attention is being paid to small companies.

The lack of accessible equity markets also hampers fundraising efforts by small entrepreneurs. Public stock offers are strictly regulated, and the country lacked an effective over-the-counter market until early 1984. While a listing on the major stock exchanges is still impossible for new firms, companies with even a limited track record can now take advantage of easier listing requirements instituted for most of the second-section exchanges, which now welcome venture stocks as invigorating as well as lucrative additions.

Japan's OTC market has traditionally been an avenue of last resort for cash-hungry firms, endowing it with a negative image. There are signs, though, that this situation is changing as a result of the addition of OTC markets at the three major Japanese stock exchanges, liberalization of the rules governing the OTC market, and the introduction of a nationwide electronic quotation system similar to the NASDAQ system. Significantly eased rules for public stock offerings have improved the options available to entrepreneurs. The volume of shares traded has increased dramatically since the electronic quotation system went into effect on July 7, 1984, but the taint of listing over the counter has not been entirely purged.

The vaunted lifetime employment system may also dampen venture-minded Japanese by insuring a comfortable career. While the system covers a minority of employees, they happen to be those vital to a venture business, including engineers, financial analysts and managers. Cracks in this institution have also appeared, however. Lower rates of economic growth have not only pressured financial firms but also thrown a monkey wrench into the fine-tuned employment system. Without good growth, companies cannot promote employees as regularly as they once did. With fewer opportunities and less frequent promotions, the lifetime system has lost its sheen in the eyes of those near the bottom of the promotion ladder, increasing the allure of a venture business.

Major corporations and public and private educational facilities in Japan have not encouraged basic research and often carefully control research activities, stunting creativity and innovation. Researchers interested in pursuing a pet project must cross an ocean of red tape or negotiate a maze of bureaucratic politics. Basic research, the source of so many American advances, has received short shrift in Japan until this year, when politicians, businessmen and educators alike suddenly realized that basic, free-ranging research is the key to Japan's future. Private and public efforts are underway to encourage original research and improve information exchanges between public and private R&D centers.

Patent licensing is also being encouraged. Generally, every scientific advance in Japan is patented. These patents are jealously guarded even if they are not used; thousands are held by large corporations that do not have the resources or motivation to utilize them. In response to public and private advisory commission reports, however, some major companies are now considering licensing unused patents to venture businessmen. Government laboratories have long licensed patents to the private sector, and small businesses are now considered viable licensees.

Economic Obstacles - Compared with the 1960s and early 1970s, the Japanese economy today faces a variety of additional demands from industry as well as consumers. High value-added goods and services represent the fastest-growing sectors. The proliferation of demand cannot be met by the existing economic structure, which emphasizes mass goods for mass consumers.

This is opening the door for diversification and making venture business more practicable. Skyrocketing R&D costs also create more opportunities for risk takers since large companies cannot fund every project. By focusing research on one product, many small companies can bring to market products big companies consider marginal.

Slower economic growth has had several other important consequences. One of the more important is the surfeit of investment funds as large companies reduce their borrowing. With more and hungrier investors, the siren song of high-growth venture business is capturing more listeners. There are also more singers today in Japan. A large pool of entrepreneurs developed when major manufacturers jettisoned many of their subcontractors as demand for their products fell. These companies, which possess solid managerial and manufacturing experience, suddenly find themselves closed out of their traditional markets and are compelled to enter new ones if they are to survive.

Slower growth also means reduced employment demand by large companies, improving small firms' chances of attracting talent. While it is true that demand by major corporate entities for graduates of top-flight universities will remain strong, positions with small, innovative firms will become more viable as successful venture businesses proliferate.

Cultural and Human Factors - This category is probably the most important and the most difficult to evaluate. The Japanese value reticence, conformity and the importance of the group -- a poor mix for the growth of a high-risk, fast-moving venture capital industry. And while the Japanese have always been excellent businessmen and famously able to adapt to new situations, it may be that successful venture activities require changes in the national psychology.

A generational difference between top- and mid-level management may help to explain the increasing interest of mid-career employees in striking out on their own. The younger generation is less conservative and not as complacent. They also tend to be more interested in personal success and well-being. For some, venture business offers a faster and more exciting ride to the top. The founder-presidents of new, dynamic companies who serve as role models for the current generation are establishing alternative definitions of success. While the demonstration effect of these mavericks cannot be measured, it certainly should not be underestimated.

Risk-taking must also be fostered if Japan's venture industry is to thrive. While innovation in pursuit of economic growth should be rather easy to accept, risk-aversion remains deeply ingrained. Rising national prosperity and awareness of Japan's global economic strength may improve the risk equation, but it will be some time before Japanese accept job changes and risky ventures with nonchalance.

Decisionmaking by consensus poses another serious hurdle to venture capitalists. They must be free to arrange new deals and bail out of old ones as they see fit. Even small firms have difficulty in this respect, and no general solution has surfaced. Individual decisionmaking is not encouraged in school or on the job -- a handicap that has limited the development of a broad venture industry and must be addressed.

The Current Japanese Venture Boom

Venture capital is not new to Japan; some of today's industrial giants, including Sony Corp. and Honda Motor Co., Ltd., began as venture startups after World War II. It was not until the 1960s, however, that Japan's first venture capital boomlet occurred with the establishment of eight venture funds. While the time may have been ripe for venture capitalists, it was not right for venture business. The first oil shock and the 1974-75 recession made parodies of optimistic projections for the venture business, and by the mid-1970s seven of the venture funds had moved into traditional financing and one had folded. In the past two years, though, venture capital companies have been multiplying like rabbits and venture businesses sprouting up like weeds.

Venture Capital - About 30 venture capital firms have been established since 1982. (See Table 1 for profiles of some of these companies. Also see Table 2, which presents information on the top U.S. companies for comparison.) While it is now possible for individuals to undertake venture activities through the OTC market, established firms account for the vast majority of high-risk investments.

This second wave of venture capitalists consists primarily of offshoots from banks and securities firms. Six firms from the first venture boom have also returned to riskier activities, but they are understandably skeptical about the industry's future. The major securities firms and banks jumped into the market in 1982, and a second tier of banks, securities firms and insurance companies followed shortly thereafter.

Because banks and their affiliated institutions are required to have collateral clauses in their loan contracts, their venture capital subsidiaries tend to be more conservative and are handicapped in comparison with other venture capitalists. In contrast, fund managers associated with securities companies have been very aggressive in creating investment business associations, a kind of tax shelter that makes it easier to raise venture funds. The Japan Associated Finance Co., Ltd. has already organized six associations with capital totaling Y23.5 billion ($96 million). Because these investment associations do not guarantee the principal on their loans, bank-affiliated venture firms cannot utilize this instrument.

By the end of 1983, an estimated Y40 billion ($163 million) had been invested in small companies by these capital merchants. From the scanty data available, it appears that the majority of the money has gone to high technology firms, with the rest relatively evenly spread among light manufactured goods and services industries. In fact, competition to find good venture investments is extremely intense. Fund managers have combed the 60,000 Japanese small businesses and rejected all but approximately 1,500 of them. An announcement of a promising invention prompts a flood of telephone calls and visits from interested investors. There are clearly more lenders than borrowers in the venture market, a point that might presage a shakeout if venture capitalists continue to increase.

Venture Business - Because there is no generally accepted definition of what constitutes a venture business, statistics may vary widely. At best guess, there are about 1,500 new, small, innovative and high-risk firms in

Japan that could be called venture businesses. Statistics on these companies compiled by MITI's Small and Medium Enterprise Agency are presented in Table 3.

According to a late 1983 survey of 500 select venture businesses by Nihon Keizai Shimbun, sales grew 1.7 times from 1979 to 1982; the average age of the chief executive was a comparatively young 48.8 years, with 205 firms reporting presidents of 45 years or younger. These firms each employed about 89 workers whose average age was 31. There were 11 food or biotechnical companies, 18 services firms, 50 precision instrument makers, 81 software houses, and 135 electric equipment producers. R&D outlays averaged 10 percent of sales, and the average firm held 40 patents.

Innovative services are also attracting much attention, as shop-at-home and other care services fall within the reach of an increasing number of consumers. Tie-ups with foreign firms and other venture businesses are an increasingly important feature. If this trend continues, Japan's business structure will become less and less pyramidal, perhaps affecting the country's rigid distribution system, reducing the importance of the major industrial groups, and raising the level of competition. Venture businessmen still face major hurdles, however. The vast majority claim that they are having difficulty maintaining an adequate cash flow, attracting skilled or talented personnel and forging domestic sales and distribution networks.

Links to the International Venture Market - Japan's venture industry owes a great deal to the presence of foreign venturists. Conversely, Japanese venture capitalists and entrepreneurs tend to be very aggressive in overseas activities, and many adventurous firms are moving into the U.S. market where investment opportunities are more plentiful. The general trading companies have been investing in startups through American fund managers for several years, in fact, and in May of this year, Marubeni Corp., Okasan Securities Co., Ltd. and nine other Japanese banks and securities firms formed a joint venture with Burr, Egan, Deleage and Co., a Boston, Massachusetts-based venture management firm, to invest in U.S. high technology companies. Based in Curacao, a Caribbean tax haven, the Alta Jami Fund was initially capitalized at $11 million. Three months later, Orient Leasing Co., Ltd., Japan's largest leasing company, announced it was leading a group of Japanese, British and American firms in creating an international venture capital fund. A British bank, Baring Brothers & Co., Hambrecht & Quist of the United States, and Daiwa Securities Co., Ltd., Sanwa Bank, Ltd. and Dai-Ichi Mutual Life Insurance Co., Ltd. will contribute to the new company's Y300 million ($1.2 million) initial stake.

Japanese venture businesses have also pursued overseas opportunities -- both to raise funds and to market their products. In 1983, Sawafuji Dynameca Co., Ltd., a maker of innovative stereo speakers, raised $2 million from American investors when it had been hoping for $200,000. This experience was so positive that it now has a U.S. subsidiary and is planning forays into the European market. Nippon Ceramic Co., Ltd., with a reputation for innovative piezoelectric ceramics, has established a plant in Ireland to meet growing demand on the continent. Small computer companies have also been active in seeking foreign links. Ai Electronics Corp., a Tokyo maker of personal computers and software, has a joint venture in Singapore and has built links with Taisho Systems, Inc. of San Jose, California and Ziegler Instruments

G.m.b.H. of West Germany to market its products in those countries. Ireland has also captured investments by Logic Systems International Inc. and Sord Computer System Inc., both headquartered in Tokyo. Sord and Nippon Computer Co., Ltd. have established sales offices in New York City targeting the huge U.S. market.

Foreign companies have provided a critical impetus to Japan's venture capitalists by showing that it could be done there. TA Associates (Boston, Massachusetts), Kleiner, Perkins, Caulfield & Byers (San Francisco, California), CitiCorp Venture Capital Ltd. (New York City), along with some American accounting firms, have been operating in Japan on their own, but more often in conjunction with Japanese partners. Estimates of the amount of foreign venture capital poured into Japan range from $40 to $80 million at the end of 1983. This amount is from one-quarter to one-half of Japan's total venture investments -- a significant market presence. More than the money, however, foreigners have contributed concepts and techniques that have provided a major boost to domestic industry.

At the same time, some foreign venture companies have been seeking Japanese investors or hope to penetrate Japan's markets. Gigabit Logic Inc. (Newbury Park, California) is taking on Japan's electronic giants in the race to market super-fast gallium arsenide integrated circuits; and Genentech Inc. (San Francisco, California) has probed for investors in its biotechnology business.

Government Support for Venture Capital

While the White House and Congress have provided some indirect support for the U.S. venture industry, Tokyo has tried to encourage this high-risk sector directly.

MITI Programs - MITI's Small and Medium Enterprise Agency fosters venture industry in several ways. It provides a long-term "vision" of what it considers desirable development. These visions usually have no quantitative effects, but they do provide psychological sanction to entrepreneurs. Discussions with banks, local governments and venture industry leaders occupy much of the agency's time. By acting as a forum for the exchange of ideas, it identifies problems, develops solutions, and offers advice. A more important contribution is the agency's Center for the Development of R&D Oriented Enterprises or Venture Enterprise Center (VEC).

Inaugurated in 1975, VEC provides loan guarantees to small businessmen. If the company meets VEC's standards for technical and managerial competence, it can borrow up to Y100 million ($408,000) for R&D purposes at 4 percent interest from a conventional lender with VEC guaranteeing 80 percent of the loan. The guarantee period is from one to eight years, at the end of which the loan must be repaid. VEC charges a 2 percent loan fee, and can receive a bonus of 5 to 50 percent of the principal if the borrower makes a substantial profit. At the end of 1983, VEC had guaranteed 202 loans worth about Y6 billion ($27 million) and had received success bonuses from six companies. It has done this with just Y250 million ($1 million) in capital and a Y1.25 billion ($5 million) credit guarantee fund. An important factor in its success has been its access to money collected from bicycle racing, which it channels to financial institutions at a charge of just 0.9 percent interest. Lenders can therefore still make a satisfactory profit on 4 percent loans.

Local Promotion Efforts - To date, 34 of 46 prefectures and eight major cities have established venture promotion funds on the VEC model. The major points of these programs are listed in Table 4. Most offer funds at 6 to 8 percent interest for up to 10 years for both operating and equipment expenses. Their major function is to provide intermediary and information services to both providers and seekers of capital.

Tax Policy - At present, no tax breaks are specifically targeted for venture capital activities, although credits for R&D costs are offered. There is a movement to provide a tax credit equivalent to 25 percent of the dividends received from venture investments and allow some write-offs for small businesses in high technology fields. Because of concerns over ballooning budget deficits, it is unclear at present what chances these proposals have.

Regulatory Environment - More importantly, the government can improve the environment by continuing to liberalize financial markets and reduce regulatory intrusions. The increasing degree of competition brought on by decontrol will hone money managers' skills and increase the flow of funds to dynamic sectors. As more financial instruments become available and equity markets mature, the flexibility to meet investors' and borrowers' needs will be enhanced.

The government of Japan has made a clear commitment to helping its venture industry mature as rapidly as possible. It is critical to note that Tokyo considers indirect policies at least as important as direct support and that it believes Japan's venture capital market must be open in order to develop into a robust industry.

A Brief Comparison of U.S. and Japanese Venture Industries

While there are some similarities between the venture industries of the United States and Japan, the differences are much more interesting.

Venture Capital - Emphasis on fast-growing, new-product companies is characteristic of both countries' industries, but there is a clear difference in the degree of risk considered acceptable in Japan and the United States. U.S. venture capitalists are funding more companies at the protean stage when an entrepreneur has nothing more than an idea to sell. Japanese managers tend to seek out companies that have readily marketable products and some proven track record.

Different investment structures are employed as well. American investors demand equity positions in return for capital, while their Japanese counterparts tend to grant low- or no-interest loans. Much of this derives from the spin-off nature of Japanese venture capital firms, which act as pointmen for the parent institution, creating new customers and long-term business relationships. Because of this difference, American venture capitalists often become intimately involved in the management of the business -- not always an advantage. While Japanese venture capitalists are certainly willing to offer management advice, most venture borrowers neither seek it nor are required to accept it.

The American venture capital industry has a wide range of institutionalized procedures for linking lenders and borrowers. While Japan is adopting some of these mechanisms, borrowers and lenders still find it difficult to make connections. At the end of 1983, for example, U.S. venture managers had available or had invested $12 billion, far outpacing Japan's approximately $160 million total. In 1983 alone, new capital commitments by U.S. investors totaled $4.1 billion and disbursments reached $2.8 billion. While similar Japanese statistics do not exist, it is unlikely that the figures would be one-tenth as large. The biggest Japanese venture fund is capitalized at Y1 billion ($4 million), while there are very few U.S. funds with an initial stake of less than $10 million and megafunds of $150 million-plus are no longer unusual (see Tables 5 and 6). The American venture capital industry has grown so large that it is actually experiencing some of the same problems the Japanese are facing: a shortage of trained fund managers and intense competition for the best investments.

Venture Business - The differences between the two countries' venture businesses are more subtle despite the common emphasis on high technology fields and services. Both countries possess old and new venture firms, but the older U.S. firms have tended to stick with their original lines of business, while older Japanese firms have often shifted fields once or twice. U.S. companies, in addition, tend to be more heavily capitalized, the difference hovering around a factor of ten. In part this has to do with the larger average size of U.S. venture firms, but it also mirrors the availability of funds. As American entrepreneurs once did, Japanese trailbazers rely on their own financial resources or funds borrowed from friends and relatives. This could change as the Japanese market matures, however.

Outlook

Analysts agree that Japan's pool of venture capital will grow significantly in the next few years, with estimates running anywhere from 50 percent to 150 percent. Many new companies, both Japanese and foreign, are likely to enter the market, the level of managerial skill will continue to improve, and more startups will be funded.

Forecasters see the sales of venture businesses doubling by the end of FY 1985 (March 30, 1986). Biotechnology companies expect business to increase 200 percent over the next three years; consulting firms, 136 percent; computer and software firms, 133 percent; electronics makers, 104 percent; and precision equipment producers, 97 percent. Capital spending should increase over 25 percent a year through 1986 and R&D outlays will continue to eat up 10 percent or more of sales. While these predictions are impressive, it should be remembered that Japanese venture businesses are usually a magnitude smaller than their U.S. counterparts and their impact on GNP growth will likely remain small. Their contribution to the country's technology pool should be significant, however.

Cultural change should also continue to improve the environment for the venture industry. Society will become increasingly tolerant of maverick behavior, and the definition of success should continue to shift toward a focus on the individual. Attitudes toward employment and entrepreneurship should also move in favorable directions, but decisionmaking most probably will remain mired in the consensual mode.

Institutional factors should tilt more in favor of venture participants as big companies move toward direct involvement in venture markets and financial markets are liberalized. Foreign companies will remain a significant factor, encouraging Japanese firms to change their standard operating procedures. Educational reforms may breed more independent businessmen and almost certainly will provide better R&D inputs both in terms of discoveries and human resources. It is not certain that government support for venture capital will increase, but Tokyo is expected to continue to improve the venture environment by liberalizing markets and reducing burdensome regulations.

In sum, venture capital in Japan has made huge strides in the past few years, yet remains a toddler beside the mature U.S. industry. Prospects for continued rapid growth are very good. Whether it can ever catch up with its U.S. mentor is another question.

For further information, contact Jon Choy.

The views expressed in this report are those of the author and do not necessarily represent those of the Japan Economic Institute.

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Table 1: Japanese Venture Capital Companies, FY 1983

(in millions of yen)

Affiliates of Securities Company	Established	Capital	Major Stockholder	No. of Stockholders	Outstanding Balance	No. of Investments	Operating Income	Net Profits	Dividends
Japan Associated Finance	4/73	Y1,000	Nomura Securities	63	Y12,345	96	Y9,913	Y606	Y12
Yamaichi General Finance	12/73	600	Yamaichi Securities	42	1,180	35	3,231	397	10
Nippon Investment Finance	7/82	1,000	Daiwa Securities	20	2,000	23	*	*	0
Sanyo Finance	7/82	160	Sanyo Securities	4	1,000	12	788	24	0
Yamaichi Univen	11/82	50	Yamaichi Securities	7	600	7	37	(12)	0
New Japan Finance	12/82	500	New Japan Securities	10	500	10	286	0.7	*
Wako Finance	12/82	300	Wako Securities	13	150	5	9	0.6	0
Marusan Finance	3/83	20	Marusan Securities	*	25	5	*	*	*
Okasan Finance	4/83	100	Okasan Securities	15	(150)	5	(30)	*	*
Kansai Venture Capital	5/83	500	Osakaya Securities	48	*	*	13	(4)	*
Maruman Finance	6/83	100	Maruman Securities	13	(4)	*	(600)	(10)	0
Nikko Venture Capital	7/83	800	Nikko Securities	26	*	*	10	(3)	0
National Kogyo	8/83	20	National Securities	7	*	*	*	*	*
Toyo Finance	10/83	100	Toyo Securities	11	*	*	*	*	*
Dai-Ichi Capital	10/83	200	Dai-Ichi Securities	23	*	*	*	*	*
Bank Affiliates									
Nippon Enterprise Development	11/72	900	Long-Term Credit Bank C. Itoh & Co.	28	2,539	80	2,355	129	0
Central Capital	1/74	600	Bank of Tokyo	19	1,827	32	2,026	101	6
Tokyo Venture Capital	4/74	600	Dai-Ichi Kangyo Bank	19	1,615	49	1,003	309	0
Diamond Capital	8/74	500	Mitsubishi Bank	21	2,206	80	419	114	0
Fuji Investment	7/83	450	Fuji and Yasuda Banks	9	*	*	*	*	*
Sanwa Capital	12/83	*	Sanwa Bank	*	*	*	*	*	*
Kyushu Capital	9/83	*	Fukuoka Sogo Bank	*	*	*	(488)	(26)	0
Hyogin Factors	12/79	*	Hyogo Credit Service (?)	*	*	*	1,863	101	10
Others									
Oriental Capital	10/83	300	Oriental Leasing Baring Brothers & Co. (U.K.) Hambrecht & Quist (U.S.)	7	*	*	*	*	*
Nagoya Capital	10/82	*	Okatoku Bldg.	*	155	4	*	5	*
Alta Jami N.V.	5/84	2,695	Marubeni Corp. Burr, Egan, Deleage & Co. (U.S.)	12	*	*	*	*	*
Fidelity Japan	10/80	*	Fidelity International (Bermuda)	*	*	*	*	*	*

*Not available.

Source: Ministry of International Trade and Industry, Venture Business Research Group.

Table 2: U.S. Venture Capital Companies, 1983

(in millions of dollars)

Company	Total		Seed/Startup		Later Stage		Follow-On		Buyouts	
	Value	Number	Value	Number	Value	Number	Value	Number	Value	Number
Hillman Co.	$102.10	66	$16.70	14	$24.74	19	$46.33	27	$11.33	6
General Electric Venture Capital Corp.	88.00	25	2.00	4	39.00	6	47.00	15	0.00	0
TA Associates	85.01	39	24.62	15	41.55	10	9.30	10	9.54	4
First Chicago Investment Corp.	82.10	50	7.50	8	15.90	9	28.90	24	29.80	9
Citicorp Venture Capital Ltd.	79.60	82	23.60	28	18.00	13	16.50	31	21.50	10
Hambrecht & Quist Inc.	69.00	106	20.00	20	27.00	35	22.00	51	0.00	0
Warburg, Pincus Capital Partners	58.46	52	40.65	10	11.40	5	12.71	35	23.70	2
Allstate Insurance Co., Venture Capital Division	55.50	42	17.70	12	20.40	11	12.40	18	5.00	1
Security Pacific Venture Capital Group	44.24	26	8.30	5	6.40	5	0.94	4	28.60	12
Brentwood Associates	41.54	63	22.57	23	0.00	0	18.97	40	0.00	0
Kleiner, Perkins, Caulfield & Byers	41.00	43	14.00	12	12.00	7	15.00	24	0.00	0
Adler & Co.	40.10	52	9.50	16	2.10	3	28.50	33	0.00	0
Walsh, Carson, Anderson & Stowe	38.10	32	15.30	15	2.70	2	14.50	12	7.60	3
Robertson, Colman & Stephens Venture Fund	33.50	81	5.30	11	19.60	32	8.60	38	0.00	0
Norwest Venture Capital	31.84	49	10.85	13	3.45	4	11.24	28	6.29	4
Golden Gate Investments Inc.	31.80	61	18.60	43	0.00	0	13.20	18	0.00	0
Rothschild Ventures Inc.	31.60	40	8.90	14	6.90	8	15.80	18	0.00	0
Oak Investment Partners	31.10	53	16.40	20	0.00	0	14.70	33	0.00	0
Concord Partners	30.40	28	7.60	10	13.60	7	4.20	8	5.00	3
Venture Lending Associates	30.00	2	0.00	0	0.00	0	0.00	0	30.00	2
BT Capital Corp.	29.80	13	12.20	3	1.10	2	0.00	0	16.50	8
Cable, Howse & Cozadd Inc.	29.40	40	*	*	*	*	*	*	*	*
Burr, Egan, Deleage & Co.	29.00	39	*	11	*	4	*	24	0.00	0
Mercantile Dallas Corp.	28.42	65	3.19	10	9.50	26	14.38	26	1.35	3
John Hancock Venture Capital Fund	25.50	32	3.35	6	20.85	23	0.30	2	1.00	1
J.H. Whitney Co.	24.40	32	13.00	12	1.00	1	5.60	16	4.80	3
Lawrence, WPG Partners	23.25	30	5.60	6	1.85	2	12.50	19	3.30	3
Churchill International	23.24	24	2.50	4	2.49	5	18.24	15	0.00	0
Montgomery Bridge Fund	23.00	37	0.00	0	0.00	0	23.00	37	0.00	0
New Enterprise Associates L.P.	21.50	64	7.10	15	7.50	15	6.90	34	0.00	0

Source: "Venture Capital 100," Venture, June 1984.

Table 3: Survey of Japan's Venture Business

(percentage of total firms in each category)

3a. Capital
(in billions of yen)

	Total Firms	Indi-viduals	Under 0.1	0.1-0.3	0.3-0.5	0.5-0.7	0.7-1.0	1.0-3.0	3.0-5.0	5-10	Over 10	Not Clear
VB*	847	5	170	238	141	74	73	90	26	21	9	11
Percent	100.0%	0.6	20.1	28.1	16.6	8.7	8.6	10.6	3.1	2.5	1.1	
SB**	1,531	63	427	453	197	81	68	96	25	24	97	25
Percent	100.0%	4.1	27.9	29.6	12.9	5.3	4.4	6.3	1.6	1.6	6.3	

3b. Employees

	Total Firms	Under 4	5-19	20-49	50-99	100-199	200-299	300-499	500-999	Over 1,000	Not Clear
VB	848	25	167	196	175	134	54	51	34	12	10
Percent	100.0%	3.0	19.7	23.1	20.6	15.8	6.4	6.0	4.0	1.4	
SB	1,544	48	246	478	331	166	68	50	65	92	12
Percent	100.0%	3.1	15.9	31.0	21.4	10.8	4.4	3.2	4.2	6.0	

3c. Annual Sales
(in billions of yen)

	Under 0.5	0.5-1	1-3	3-5	5-7	7-10	10-15	15-20	20-30	30-40	40-50	50-100	Over 100
VB	4.0%	4.6	17.9	12.2	7.8	6.9	10.0	5.3	8.2	4.8	2.8	8.6	6.9
SB	4.5%	4.4	21.4	14.5	11.3	11.3	10.1	6.4	5.2	3.8	2.3	3.5	1.6

3d. Ordinary Profit
(in billions of yen)

	Loss	0.00-0.01	0.01-0.02	0.02-0.05	0.05-0.1	0.1-0.3	0.3-0.5	0.5-1.0	1.0-5.0	5.0-10.0	Over 10.0
VB	6.8%	7.1	5.4	6.3	9.3	16.3	9.7	12.8	17.5	4.3	4.6
SB	20.4%	8.5	6.7	11.3	10.2	16.8	8.3	9.4	7.3	0.6	0.5

3e. Ordinary Profit/Sales Ratio
(in percent)

	Loss	0-1	1-3	3-5	5-7	7-10	10-15	15-20	20-25	25-30	30-40	Over 40
VB	6.8%	11.0	19.2	17.3	12.1	11.2	10.5	5.9	2.6	1.2	1.9	0.6
SB	20.4%	15.1	21.4	13.9	10.2	8.6	5.6	2.5	0.9	0.9	0.6	0.5

3f. Age of Firm
(in years)

	Under 1	1-3	3-5	5-7	7-10	10-15	15-20	20-30	30-40	Over 40
VB	0.2%	4.4	5.6	5.7	12.2	21.9	12.7	17.9	12.0	7.4
SB	0.2%	0.7	1.7	1.8	5.4	13.4	13.8	24.8	24.7	13.5

3g. Market Share
(in percent)

	Under 1	1-5	5-10	10-20	20-40	40-60	60-80	80-100
VB	17.1%	15.3	12.1	12.3	16.3	12.5	7.4	7.0
SB	28.1%	24.3	16.3	9.7	10.3	4.8	3.5	3.2

3h. Industry Distribution of Venture Firms

Industry	Percent	Industry	Percent	Industry	Percent
Food Products	2.2%	Leather Products	0.0	Wholesale	4.6
Textiles	1.0	Nonmetallic Minerals	2.3	Retail	1.0
Apparel	0.9	Iron and Steel	1.2	Transportation	0.3
Wood and Wood Products	0.6	Nonferrous Metals	1.4	Computer Software	13.4
Furniture	0.4	Fabricated Metal Products	4.0	Information Management	3.2
Pulp and Paper	0.8	Nonelectric Machinery	9.2	Information Services	0.0
Publishing and Printing	0.8	Electric Machinery	21.2	Other Information Services	0.5
Chemicals	5.0	Transportation Equipment	1.8	Other Services	2.6
Oil and Coal	0.0	Precision Machinery	9.0	Other	3.1
Rubber Products	0.6	Other Machinery	8.6		

3i. Distribution of Venture Firms by Manufacturing Industry and by Field

Industry	VB	SB	Industry	VB	SB	Field	VB	SB
Food Products	3.1%	11.4%	Leather Products	0.0	0.5	Telecommunications	0.9	1.0
Textiles	1.4	5.0	Nonmetallic Minerals	3.2	4.9	Electronics	18.5	4.1
Apparel	1.3	7.9	Iron and Steel	1.7	1.3	Robotics	10.1	1.2
Wood and Wood Products	0.8	4.6	Nonferrous Metals	2.0	1.1	Biotechnology	3.0	0.2
Furniture	0.6	1.6	Fabricated Metal Products	5.6	11.3	New Materials	4.3	0.5
Pulp and Paper	1.1	3.1	Nonelectric Machinery	13.0	5.9	Energy	1.4	0.4
Publishing and Printing	1.1	5.6	Electric Machinery	14.9	9.4	Other Manufacturing	37.9	77.3
Chemicals	7.0	3.0	Transportation Equipment	2.5	4.9	Software Systems	15.0	0.2
Oil and Coal	0.0	0.7	Precision Machinery	12.7	13.2	Management and Marketing	1.4	0.8
Rubber Products	0.8	1.5	Other Manufacturing	12.1	13.2	Fashion Design	1.5	3.5
						Other	6.0	10.8

3j. Research and Development Outlays/Sales Ratio
(in percent)

	Under 0.5	0.5-1.0	1.0-1.5	1.5-2.0	2-3	3-4	4-5	5-7	7-10	10-15	15-20	Over 20
VB	9.8%	12.7	9.1	8.8	11.9	6.0	8.8	7.4	9.6	7.2	2.4	6.3
SB	37.0%	21.5	12.6	6.4	7.4	4.4	3.9	2.3	2.7	1.0	0.7	0.0

3k. Research and Development Personnel
(percentage of total firms in category)

	Overall Average	5	10	15	20	25	30	35	40	Over 40
Venture Companies	17.4%	33.2	22.3	14.4	6.8	3.7	4.1	2.2	1.7	11.6
Small Companies	5.1									
Big Companies	7.3									
All Industries	6.9									

3l. Sources of Finance

	Owner Funds	Borrow from Bank	Issue Stock	Borrow from Relative	Borrow from Friends	Borrow from Business Connection	Borrow from Former Company	Borrow from Credit Company	Other
VB	72.7%	49.3	23.2	17.7	16.1	2.3	0.9	0.9	2.7
SB	62.9%	56.1	14.5	9.9	5.1	3.0	1.8	1.2	3.1

*VB = Venture Business
**SB = Small- and Medium-Sized Business

Source: Ministry of International Trade and Industry

Table 4: Venture Capital Funds of Local Governments

	Established	Capital (millions of yen)	Use of Funds	Interest Rate	Term (years)
Prefecture					
Hokkaido	1984	Y80	Equipment	7.0%	10
Aomori	1982	25	Operating and equipment	6.7	7-10
Iwate	1978	3.2	Operating and equipment	0.0	7
Yamagata	1982	10	Operating and equipment	6.5	5-10
Miyagi	1984	40	Operating and equipment	7.1-6.6	variable
Tokyo To	1977	70	Technology commercialization	6.4	7
Kanagawa	NA	50	Technology R&D	5.8	5-10
Chiba	1979	130	Operating and equipment	6.0	5-7
Saitama	1984	50	New materials, biotechnology, microelectronics	6.0	7-10
Ibaraki	1981	30	Operating and equipment	5.8	7
Yamanashi	1974	25	Operating and equipment	6.5	5
Tochigi	1984	30	New and improved manufacturing techniques	6.0	3-6
Gumma	1980	50	R&D, commercialization	5.7	10
Nagano	1975	30	Operating and equipment	6.3	5-7
Shizuoka	1983	45	R&D, commercialization of biotechnology, fiber optics, electronics	5.8	5-7
Aichi	1976	30	energy and technology R&D, R&D equipment	6.2-6.4	5-7
Gifu	1982	30	R&D, test projects	6.5	5-7
Mie	1984	50	R&D equipment, tests	NA	NA
Ishikawa	1984	30	Technology R&D, commercialization	5.5	10
Osaka Fu	1983	100	Technology commercialization	5.5	7-10
Hyogo	1982	50	R&D equipment, operating	6.6	7
Kyoto Fu	1983	50	Machinery and equipment for new products and technologies	5.0	7
Fukui	1984	50	Plant and equipment	6.4	7
Shiga	1977	20	Commercialization of new technologies and products	7.1	7
Nara	1984	50	Operating and equipment for new technologies, products and systems	6.5	7
Wakayama	1984	50	Technology R&D, commercialization	6.0	10
Hiroshima	1983	50	Operating and equipment	6.4	7
Fukuoka	1978	25	Operating and equipment	NA	5-8
Yamaguchi	1981	60	Operating and equipment	6.5	5-7
Ehime	1984	50	Operating and equipment	6.8	5-10
Kochi	1983	95	Technology R&D	5.3	7-10
Kumamoto	1983	100	Equipment	5.7	7
Oita	1983	20	R&D equipment, personnel, tests	4.0	5
Nagasaki	1982	50	Equipment	5.5	7
Saga	1983	30	Operating and equipment	5.0	5-7
City					
Sapporo	1981	20	Operating and equipment	6.0	7
Yokohama	1976	30	Physical plant	6.8	variable
Nagoya	1984	50	R&D, commercialization	6.0	7
Osaka	1983	50	Technology commercialization	6.4	7
Kobe	1982	50	R&D equipment, tests	6.5	7
Kyoto	1960	30	R&D equipment, tests	5.0	7
Kitakyushu	1980	30	R&D equipment, tests	5.8	10

Source: Ministry of International Trade and Industry

Table 5: Fastest Growing Japanese Venture Businesses

(in millions of yen; percentage change from previously listed period in parentheses)

Company	Type of Business	Sales				
		FY 1979	FY 1982		FY 1985	
Seillac Co., Ltd. (Tokyo)	computer graphics	--	Y800		Y15,000	(1,775%)
M.C.L. Co., Ltd. (Yokohama)	precision casting	Y585	1,053	(80%)	9,900	(840)
Miyama Co., Ltd. (Toda, Saitama)	industrial laser systems	200	700	(250)	6,000	(757)
Matsunaga Shoryoku Giken K.K. (Saga, Saga)	personal NC machine tools	53	50	(-5)	400	(700)
Nippon Robomation Co., Ltd. (Tokyo)	robot system engineering	--	130	(---)	4,000	(669)
Nihon Information Center Co., Ltd. (Tokyo)	kanji information processing	300	1,500	(400)	10,000	(567)
Mizuho Shokai Co., Ltd. (Nagoya)	ultrasonic measuring instruments	125	287	(130)	1,500	(423)
NAIS Corp. (Tokyo)	assembly robots	65	500	(669)	2,500	(400)
ASCII Corp. (Tokyo)	computer software	55	1,634	(363)	8,000	(390)
Shinko Kiko Co., Ltd. (Tokyo)	drilling equipment	753	2,300	(205)	10,000	(335)
Kangyo Denki Kiki K.K. (Tokyo)	semiconductor-related devices	880	2,300	(162)	9,980	(300)
DAC Engineering Co., Ltd. (Kyoto)	assembly robots	352	1,200	(241)	5,000	(317)
Cosmo 80 Co., Ltd. (Tokyo)	computer software	--	2,000	(---)	8,000	(300)
Digital Computer Co., Ltd. (Tokyo)	computer communications networks	2,070	5,000	(142)	20,000	(300)
Sigma Corp. (Kawasaki)	semiconductor etching equipment	110	320	(191)	1,200	(275)
Motoda Electronics Co., Ltd. (Tokyo)	industrial robots	450	980	(118)	3,600	(267)
Densan Co., Ltd. (Tokyo)	computer software	312	722	(131)	2,500	(246)
Zuken Inc. (Yokohama)	CAD/CAM printed circuit boards	300	2,200	(633)	7,500	(241)
Dainichi Kiko Co., Ltd. (Kosai, Yamanashi)	industrial robots	820	4,600	(461)	15,00	(226)

Source: Nikkei Sangyo Shimbun

Table 6: Fastest Growing U.S. Venture Businesses

(in millions of dollars; percent change from previous year in parentheses)

Company	Type of Business	Sales				
		1981	1982		1983	
Republic Health Corp. (Dallas)	health care management	$5.4	$26.9	(395%)	$274.2	(919%)
LSI Logic Corp. (Milpitas, CA)	semi-custom logic arrays	--	5.0	(---)	34.8	(596)
Apollo Computer (Chelmsford, MA)	computer systems	--	18.1	(---)	80.6	(345)
Seagate Technology (Scotts Valley, CA)	winchester disk drives	31.9	79.1	(148)	222.0	(289)
Allnet Communications Services (Chicago)	long-distance telecommunications	37.1	34.7	(-7)	181.1	(244)
Micro D Inc. (Fountain Valley, CA)	computer equipment distributor	--	25.3	(---)	71.0	(181)
Morrow Designs (San Leandro, CA)	microcomputer manufacturer	--	10.5	(---)	29.0	(176)
Xebec Inc. (Sunnyvale, CA)	rigid disk drive controllers	14.7	26.6	(81)	82.0	(169)
Health Group Inc. (Nashville)	medical facilities	3.0	81.8	(2,623)	204.0	(150)
Kelly-Johnson Enterprises Inc. (OK)	restaurant management	13.7	40.8	(198)	94.9	(150)
Softsel Computer (Inglewood, CA)	personal computer software	7.0	35.0	(400)	87.0	(149)
Digital Research (Pacific Grove, CA)	microcomputer software	--	18.8	(---)	44.6	(137)
Marc's (Middleburg Heights, OH)	discount drug/variety stores	17.0	25.0	(47)	55.0	(120)
Home Depot Inc. (Atlanta)	home improvement services	51.8	118	(128)	256.1	(118)
Priam Corp. (San Jose, CA)	rigid disk drives	6.0	42.6	(610)	90.3	(112)
PEOPLExpress (Newark, NJ)	airline	38.4	139	(262)	292.0	(110)
Emulex Corp. (Costa Mesa, CA)	controllers for DEC computers	13.5	23.8	(76)	46.9	(110)
MicroPro International (San Rafael, CA)	business software	5.0	22.3	(346)	44.9	(101)
Data Switch (Norwalk, CT)	computer switching systems	--	18.2	(---)	36.2	(99)
Tandon Magnetics (Chatsworth, CA)	computer peripherals	54.0	150.0	(178)	343.9	(94)

Source: "Venture Fast-Track 100," Venture, July 1983 and July 1984.

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Trade Package Passes Congress During Eleventh Hour

During the closing hours before adjourning to campaign for re-election, legislators rushed through a conference report on a comprehensive package of trade measures that is less protectionist than the bills originally passed by the House and Senate. On October 9, the House overwhelmingly approved the conference report by a vote of 386-to-1 (Illinois Republican Philip Crane cast the lone objection), and the Senate followed suit, approving the package by voice vote. It now goes to President Reagan for his signature.

Over the past two weeks, United States Trade Representative William E. Brock worked relentlessly with key trade proponents to fashion an omnibus trade package that included what the White House considered to be priority items -- an extension of the Generalized System of Preferences (GSP); authority for free trade between the United States and Israel; and the Danforth reciprocity bill -- and weakened certain sectoral measures that would prompt foreign retaliation.

In the case of the reciprocity bill, championed by Sen. John C. Danforth (R, Mo.), chairman of the Senate Finance Subcommittee on International Trade, this action finally closes the book on over two years of congressional debate.

- Japanese policies have benefited American industries to the extent that they have encouraged U.S. manufacturers to focus additional attention on quality control, innovation and export markets.

The Japanese representatives made the following points:

- "Buy America" or "Buy State" policies discriminate against foreign producers. Trade remedies enacted by Congress often shield American industry from legitimate international competition, while extraterritorial applications of American laws hinder growth in international trade. Extensive federal and state support in research and development -- far more than is available to business in many other countries -- help strengthen U.S. competitiveness.

- Many tax policies adopted by federal and local governments, including accelerated cost recovery systems and investment tax credits, are far more generous than those in Japan and thus benefit the United States internationally. Application of the worldwide unitary tax method by many American states is a distinct disadvantage to overseas competitors.

- The rising bilateral trade deficit is more the result of an overvalued dollar, high American interest rates and domestic economic conditions than of Japanese government practices.

The industrial policy study does not endorse guidelines or proposals for either government, but does support regular consultations to prevent the adoption of policies that could prove counter to accepted international trade practices.

The Japan-U.S. Businessmen's Conference is an annual gathering of two business-oriented groups: the Washington-based Advisory Council on Japan-U.S. Economic Relations, and the Japan Economic Council of Tokyo. Approximately 70 senior business leaders belong to the conference, now in its twenty-first year. The chairmen are Edson Spencer, chairman of the board of Honeywell, Inc., and Norishige Hasegawa, chairman of Sumitomo Chemical Co., Ltd.

Michael Chinworth

Foreign Direct Investment in Japan Continues Upswing

Foreign firms continue to build a presence in Japan's market, according to a survey of inward foreign direct investment released by the Ministry of International Trade and Industry (MITI). The survey, which reports on the fiscal year ending March 31, 1983, covers companies with a foreign stake of over 50 percent. The following data are based on 1,052 responses out of 2,212 questionnaires mailed to qualified companies.

Table 1 presents statistics on foreign-affiliated firms in Japan. Sales affiliates remain the most numerous at 51.1 percent, continuing a trend in evidence since FY 1979, when they accounted for 44.1 percent. Services firms held steady at around 10 percent, but the share held by manufacturing ventures fell to 34.7 percent from the 42.8 percent level in FY 1979. The United States still accounts for the lion's share of companies responding to the survey with a 46.6 percent share, down from 51 percent five years ago. European affiliates hold second place with 36.2 percent, a solid gain over FY 1979's 32.5 percent share and ahead of the Asian presence -- 12.7 percent -- up just 1.8 percentage points from the earlier period.

The impact of liberalized investment regulations is increasingly clear; 68 percent of the respondents represented firms with a majority foreign equity position, in contrast to 63 percent in FY 1979. Approximately three-fourths of the affiliates had assets of less than Y100 million ($408,000), classifying them as small- and medium-sized businesses, unchanged from five years ago. The employment impact of these firms was also relatively small since 80 percent of the companies had under 100 workers.

Foreign subsidiaries responding to the survey rang up sales of Y13.5 trillion ($55 billion), an average of Y12.9 billion ($52.6 million) each. This was down sharply (34.4 percent) from FY 1981's showing of Y18.1 trillion, primarily because of the recession. Foreign firms accounted for 1.5 percent of all sales in Japan and for 2.8 percent of sales of manufactured goods. Foreign subsidiaries are clearly a conduit for imports: the average share of sales attributable to imports was 49.3 percent. For certain industries, including petroleum products and manufactured goods, the share was as much as 75.7 percent. The subsidiaries' share of exports was much smaller, averaging just 6.4 percent. These companies ran a trade deficit, with imports exceeding exports by Y4.5 trillion ($18.4 billion).

Foreign companies also invested a larger proportion of their revenues than did their Japanese competitors. The foreign-affiliated enterprise put 2.1 percent of sales into new plant and equipment, while the domestic average was 1.3 percent. The difference was even more striking in manufacturing, where domestic firms earmarked 1.9 percent of sales for capital spending and foreign firms 3.1 percent.

Foreign affiliates were more profitable than domestic companies despite the sales decline, with an average pre-tax recurring profits-to-sales ratio of 2.3 percent, higher than the 1.8 percent average for all Japanese firms. In yen terms, pre-tax profits hit Y314.3 billion ($1.28 billion), averaging out to Y140 million ($571,000) per company. After-tax profits were also higher, with the domestic average coming in at 0.8 percent and foreign firms at 1.1 percent. MITI spokesmen attributed the success of foreign companies to thorough market research, popular brand names and a concentration in fast-growing markets.

MITI also released a survey of foreign affiliates of Japanese companies that revealed some interesting trends. In fiscal 1982, the 1,469 companies which responded (3,264 were polled) had aggregate sales of Y47.9 trillion ($196 billion) and capital of Y4.2 trillion ($17 billion) and employed 881,000 people in overseas operations. Table 2, which summarizes these patterns, shows an increased Japanese manufacturing presence in advanced countries. Statistics for all three categories show consistent increases. Japanese manufacturers are clearly responding to protectionism by increasing their foreign production base.

Table 1: Foreign Affiliates in Japan, FY 1982

(number of firms and percentage of total)

1a. Industry Distribution

Food Products	21	2.0%
Textiles	6	0.6
Wood Products	4	0.4
Pulp and Paper	2	0.2
Publishing and Printing	10	1.0
Chemicals	77	7.4
Pharmaceuticals	26	2.4
Oil and Coal	7	0.7
Rubber Products	2	0.2
Cement and Glass	10	10.0
Nonferrous Metals	9	1.0
Fabricated Metal Products	6	0.6
Nonelectric Machinery	71	6.8%
Electric Machinery	49	4.7
Transportation Equipment	14	1.3
Precision Machinery	22	2.1
Other Manufacturing	26	2.5
Commerce	534	51.1
Financial Services	11	1.1
Real Estate	12	1.1
Transportation	8	0.8
Services	110	10.5
Construction	4	0.3
Agricultural Products	3	0.3

1b. Country Distribution

United States	486	46.6%
Europe	378	36.2
West Germany	84	8.1
Switzerland	67	6.4
Britain	60	5.8
France	45	4.3
Other	122	11.6
Asia	132	12.7
Hong Kong	53	5.1
Other	69	7.6
Other	48	4.6

1c. Degree of Foreign Ownership

50 percent	334	32.0%
51 to 99 percent	209	20.0
100 percent	501	48.0

Table 2: Foreign Affiliates of Japanese Companies, FY 1980-1982

(in billions of yen or thousands of employees; percentage of total)

Fiscal Year	Total		Developed Countries		Of which: Manufacturing		Developing Countries		Of which: Manufacturing	
Capital										
1980	Y2,215	100.0%	Y973	43.9%	Y303	13.7%	Y1,242	56.1%	Y1,049	47.4%
1981	2,833	100.0	1,451	51.2	497	17.5	1,383	48.8	1,157	40.8
1982	4,153	100.0	2,208	53.2	920	22.1	1,945	46.8	1,572	37.9
Sales										
1980	Y35,289	100.0%	Y25,684	72.8%	Y2,268	6.4%	Y9,605	27.2%	Y3,796	10.8%
1981	47,335	100.0	32,730	69.1	3,934	8.3	14,605	30.9	5,505	11.6
1982	47,936	100.0	34,961	72.9	4,718	9.8	12,975	27.1	4,838	10.1
Employees										
1980	715	100.0%	144	20.1%	89	12.4%	572	80.0%	516	72.2%
1981	770	100.0	177	23.0	109	14.2	592	76.9	529	68.7
1982	881	100.0	234	26.6	143	16.2	647	73.4	554	62.9

Source: Ministry of International Trade and Industry

MITI's surveys are useful as a general indication of inward and outward foreign investment trends but cannot be called definitive because of the size of the samples.

Jon Choy

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The views expressed in this report are those of the authors and do not necessarily represent those of the Japan Economic Institute.

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Finance Ministry Studies Reform of Tax-Free Savings System

An issue with major implications for Japan's thrift-minded populace has re-entered the political spotlight: reforming the tax-free savings system for individuals, or "maruyu" savings as it is commonly called. In its quest for a balanced budget, the Ministry of Finance (MOF) has proposed several possible reforms to control abuses of these savings accounts and increase revenues by cracking down on non-reporting of interest income. The Ministry of Posts and Telecommunications (MPT), which administers the postal savings system -- a major beneficiary of maruyu savings -- has made it clear that it opposes the MOF reforms. The debate could take on important political connotations as Prime Minister Yasuhiro Nakasone comes up for re-election.

STATISTICAL SUPPLEMENT

Trade and Payments Data

(in millions of dollars unless otherwise indicated)

	1982	1983	January-August 1983	January-August 1984	June 1984	July 1984	August 1984
Japan's Balance of Payments							
Trade Balance	$ 18,079	$ 31,454	$19,192	$25,629*	$ 4,845*	$ 4,124*	$ 2,221*
Exports (f.o.b.)	137,663	145,468	92,993	109,631*	14,649*	14,837*	13,178*
Imports (f.o.b.)	119,584	114,014	73,801	84,002*	9,804*	10,713*	10,957*
Current Account Balance	6,850	20,799	11,899	19,016*	4,384*	3,210*	1,231*
Long-Term Capital (net)	-14,969	-17,700	-9,793	-30,514*	-6,229*	-7,146*	-3,183*
Overall Balance	-4,971	5,177	2,916	-14,432	-2,254	-2,665	-3,435
International Reserves (end of period)	23,262	24,496	24,398	25,428	25,208	25,123	25,428
Japan's Customs Clearance Trade							
Trade Balance	6,900	20,534	11,979	17,840*	4,016	3,199	1,117*
Exports (f.o.b.)	138,831	146,928	93,670	110,620*	14,760	14,807	13,293*
Cars	18,015	19,535	12,731	14,577*	1,817	2,080	1,564*
Steel	15,645	12,843	8,172	8,877*	1,146	1,262	1,119*
Imports (c.i.f.)	131,931	126,393	81,691	92,781*	10,744	11,608	12,176*
Crude Oil	46,274	40,063	25,981	27,253*	2,751	3,202	3,701*
Japan-U.S. Trade							
Trade Balance	12,151	18,181	9,939	20,218*	3,031	3,253	2,441*
Exports (f.o.b.)	36,330	42,829	26,017	38,363*	5,228	5,566	4,842*
Imports (c.i.f.)	24,179	24,648	16,078	18,145*	2,197	2,313	2,400*
Yen-Dollar Exchange Rate							
Tokyo Spot Market (end of period)	Y235.00	Y232.20	---	---	Y237.50	Y245.50	Y241.30
U.S.-Japan Trade							
Trade Balance	-16,778	-19,289	-12,543	-22,733	-2,473	-4,101	-3,179
Exports (f.a.s.)	20,966	21,894	13,761	15,649	2,031	2,158	1,906
Industrial Supplies	9,173	8,734	5,590	6,030	836	821	731
Food and Feed	4,971	5,555	3,504	4,110	469	594	534
Capital Goods	4,434	5,116	3,116	3,679	450	487	418
Consumer Goods	1,356	1,394	920	985	141	135	129
Imports (Customs)	37,744	41,183	26,304	38,382	4,505	6,259	5,085
Automotive Products	12,890	14,919	9,748	12,644	1,533	2,021	1,604
Industrial Supplies	6,795	5,391	3,444	4,919	543	762	625
Consumer Goods	7,842	8,296	5,171	7,460	863	1,220	1,055
Capital Goods	9,530	11,896	7,500	12,804	1,500	2,170	1,734

*Preliminary

STATISTICAL SUPPLEMENT

Japanese Economic Indicators

(percentage change from year-earlier period unless otherwise indicated)

	1982	1983	January-July 1983	January-July 1984	May 1984	June 1984	July 1984
Discount Rate (end of period)	5.5%	5.0%	5.5%	5.0%	5.0%	5.0%	5.0%
Outstanding Money Supply	9.2%	7.4%	7.5%	7.8%	7.6%	7.5%	7.7%
Industrial Production	0.3%	3.6%	0.6%	11.7%	12.5%	12.6%	12.8%
Manufacturing Operating Rate	-2.9%	1.6%	-1.2%	9.7%	11.3%	10.1%	9.6%
Number of Bankruptcies	-2.8%	11.9%	6.9%	15.8%	24.5%	-0.9%	14.3%
Residential Construction Starts	-0.5%	-0.8%	-1.1%	4.4%	16.8%	-0.7%	6.3%
Job Openings to Applications (ratio)	0.61	0.60	0.59	0.64	0.64	0.64	0.64
Nominal Wages	4.5%	3.5%	4.6%	4.5%	4.2%	5.5%	4.1%
Labor Productivity	1.0%	4.6%	1.0%**	10.4%**	11.3%	n.a.	n.a.
Wholesale Prices	1.8%	-2.2%	-1.5%	-0.7%	-0.1%	-0.4%	0.0%
Consumer Prices	2.7%	1.9%	2.2%	2.3%	2.0%	1.9%	2.6%
Yen-Based Export Prices	3.9%	-6.0%	-5.8%	-0.5%	-0.1%	-0.2%	1.7%
Yen-Based Import Prices	7.9%	-7.8%	-4.8%	-4.7%	-2.0%	-3.0%	-2.1%

**Through May of each year only.

For Japan's most recent GNP figures, see JEI Report No. 38B, October 5, 1984.